

## What's News

### Business & Finance

**The SEC sued Coinbase,** alleging that the company violated rules that require it to register as an exchange and be overseen by the agency. The case is the second in two days against a major crypto firm. **A1**

◆ **The PGA Tour and LIV Golf,** the Saudi-backed upstart that sent the industry into chaos when it teed off last year, agreed to a merger that ends a divide in the sport. **A1**

◆ **Sequoia Capital,** one of the most powerful names in technology investing, said it would separate its China and U.S. businesses. **A1**

◆ **The World Bank sees** better global economic growth in 2023 than it previously estimated, but still expects slowing growth in the second half of the year. **A2**

◆ **The S&P 500 and Nasdaq** edged up 0.2% and 0.4%, respectively, to clinch closing highs for the year, while the Dow ticked up 0.03%. **B13**

◆ **Some of CNN's highest-profile** hosts are expressing concerns to management about Licht's ability to keep leading the network, people close to the situation said. **B1**

◆ **Boeing said** that it would delay deliveries of its 787 Dreamliners in the coming weeks after discovering a new defect. **B3**

◆ **Microsoft agreed** to pay \$20 million to settle charges that it violated children's privacy rights when they signed up for its Xbox game system, the FTC said. **B4**

### World-Wide

◆ **A major dam** and power station in a Russian-occupied part of Ukraine were destroyed, narrowing Ukraine's options for a planned counteroffensive in the south by unleashing a torrent that caused serious flooding. **A1**

◆ **Merck filed** a lawsuit challenging the U.S. government's Medicare drug-price negotiation program, which is expected to go into effect starting in 2026, saying it is unconstitutional. **B1**

◆ **Former New Jersey Gov. Christie** launched a bid for the presidency, adding to an already crowded field of candidates seeking the 2024 GOP nomination. **A4**

◆ **Millions of Americans** in the Midwest and Northeast were under air-quality alerts Tuesday as smoke moved south from hundreds of Canadian wildfires. **A3**

◆ **An appeals court** weakened a federal law prohibiting firearm possession by individuals convicted of serious crimes, ruling a man convicted of food-stamp fraud has a constitutional right to arm himself. **A6**

◆ **Arrests along** the southern border have dropped by about 70% after the expiration of Title 42 and the implementation of a new set of rules for asylum seekers, the Biden administration said. **A3**

◆ **A New York-based** federal appeals court considered a closely watched case over transgender girls' participation in female competition categories for school sports. **A3**

### JOURNAL REPORT

Cybersecurity: What to do about stolen passwords. **R1-8**

CONTENTS	Opinion..... A15-17
Arts in Review..... A13	Personal Journal A11-12
Banking & Finance B12	Property Report..... B6
Business News B2-3:11	Sports..... A14
Crossword..... A14	Technology..... B4,7
Heard on Street B14	U.S. News..... A2-4,6
Markets News..... B13	World News..... A7,9,18



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# SEC Widens Crypto Crackdown

### Suit alleging Coinbase is an unregistered exchange comes after Binance legal action

By Dave Michaels and Vicky Ge Huang

WASHINGTON—The Securities and Exchange Commission on Tuesday sued Coinbase, a back-to-back punch by regulators seeking to rein in the crypto industry.

The SEC alleged that Coinbase, the largest crypto exchange in the U.S., violated

rules that require it to register as an exchange and be overseen by the federal agency. The case is the second in two days against a major crypto company. On Monday, the regulator sued the world's largest crypto exchange, Binance, and its founder Changpeng Zhao.

The lawsuits are significant moves by the SEC and Chair Gary Gensler to try to regulate the entire crypto industry. The SEC's strategy has centered on using its enforcement division to subdue crypto companies and show why its regulations apply to crypto activities, with increasing focus on the big-

gest players rather than just the companies and currencies at the margins.

The SEC's lawsuit against Coinbase, filed in federal court in Manhattan, bore some notable differences from its lawsuit the day before against Binance. The SEC didn't name Coinbase Chief Executive Brian Armstrong as a defendant or accuse the company of mishandling customer funds.

Binance and its U.S. affiliate Binance.US said Monday they would defend themselves, and that all user assets were secure.

Coinbase pushed back on

Tuesday, accusing the SEC of taking an "enforcement-only approach" with the crypto industry in the absence of clear rules.

"The solution is legislation that allows fair rules for the road to be developed transparently and applied equally, not litigation," Paul Grewal, chief legal officer of Coinbase, said in a statement. "In the meantime, we'll continue to operate our business as usual."

Mark Palmer, an analyst at Berenberg Capital Markets, *Please turn to page A6*

◆ **Heard on the Street: A fight for crypto's future..... B14**

# PGA Tour, LIV Golf End Rift With Deal To Merge

### Surprise move brings together Saudi money, venerable organization after a year of chaos

By Andrew Beaton and Louise Radnofsky

The PGA Tour and LIV Golf, the Saudi-backed upstart that sent the industry into chaos when it teed off last year, have agreed to a stunning merger that ends the divide that dominated the sport for the past year.

The deal weds the Saudi money and the PGA Tour name and connections after months of bruising litigation and accusations. It also consolidates the biggest assets in professional golf—at a time when the Justice Department is investigating golf bodies including the Tour for antitrust violations.

Now, the same Saudi gushers that funded LIV will be pooled with the PGA Tour's revenue streams, giving the combined entity vast new resources. It effectively makes the Saudis investors in U.S. golf's legacy powerhouse—a move that carries risk for the PGA Tour, which has spent the past year lashing out at its rival as LIV paid hundreds of millions of dollars to stars like Phil Mickelson and Brooks Koepka to persuade them to defect.

The parties said the agreement combines the golf-related business from Saudi Arabia's sovereign-wealth fund with the commercial and business rights of the PGA Tour and a third circuit, the DP World Tour, into a new, collectively owned for-profit entity. The PGA Tour, a nonprofit, will continue to exist but essentially as a governance body while it contributes its moneymaking arms to the new, unnamed venture.

Critically, for both sides, the parties also said the merger will end the litigation between the parties.

*Please turn to page A2*

◆ **Jason Gay: The money wins again in golf..... A14**



Video posted on Ukrainian President Volodymyr Zelensky's Twitter account shows the destroyed power station and dam.

# Burst Dam Muddles Ukraine Front

By Matthew Luxmoore and Bojan Pancevski

MYKOLAIV, Ukraine—A major dam and power station in a Russian-occupied part of Ukraine were destroyed Tuesday, narrowing Ukraine's options for a planned counteroffensive in the south by unleashing a torrent of water that caused serious flooding.

Ukraine said Russia was responsible for the destruction, which forced the evacuation of thousands from dozens of towns and villages on the Dni-pro River and could create an

aquatic buffer zone for Russian forces on the southeastern bank. Russia accused Kyiv of sabotaging the dam.

Western intelligence agencies, including in the U.S., are working to determine who is responsible for the dam burst, but are leaning toward Russia, a Western official said.

"All things considered, one must naturally assume that this was an aggression perpetrated by the Russian side in order to stop Ukraine's offensive aimed at liberating its own land," Chancellor Olaf Scholz of Germany said.

## War Comes To Russia

Drone strikes and ground incursions rattle residents, challenge Putin..... **A7**

The destruction of the dam could win Russia time to reconfigure its defenses while at the same time depriving Ukraine of some options for its expected counteroffensive. Crossing the vast Dni-pro River along that stretch of the front

will now become impossible, said Nico Lange, a former German Defense Ministry official.

Russia could now redeploy resources from the southwest to reinforce other sections of the front, said Lange, now a fellow with the Munich Security Conference.

Kyiv has kept a tight lid on where its counteroffensive would focus, but military experts have long said one of its main goals could be to sever the land bridge built between Russia and the Crimean Peninsula that Moscow annexed in *Please turn to page A9*

# Sequoia To Sever Its China Business

By Jing Yang and Eliot Brown

Sequoia Capital, one of the most powerful names in technology investing, said it would separate its China and U.S. businesses, a move that underscores the growing tussle between Beijing and Washington over who controls the next generation of cutting edge innovations.

The Silicon Valley-based firm, famous for investments in startups including the owner of social-media platform TikTok, epitomized the once symbiotic relationship between tech investors on both sides of the Pacific. It and other firms like it have been forced more recently to confront the geopolitical tensions that have enveloped the U.S.-China business world.

Sequoia told its investors in a note Tuesday that it would split into three independent firms, in the U.S., India and China, by March 2024.

"It has become increasingly complex to run a decentralized global investment business," said Sequoia's investor note, signed by the leaders of its practices in the U.S., China and India.

The note cited several business reasons for the split and didn't directly address geopolitical concerns. The firm has "seen growing market confusion due to the shared Sequoia brand as well as portfolio conflicts across *Please turn to page A4*

### INSIDE

**BUSINESS & FINANCE**  
Insurer's staff revolts when new CEO reverses work-from-home policy. **B1**

**PERSONAL JOURNAL**  
A growing number of doctors are hitting the road as temporary physicians-for-hire. **A11**

# Companies Rethink Embrace of Social Issues

Firms evaluate decisions, develop crisis plans in case of backlash

By Chip Cutter and Lauren Weber

In May, clothing company The North Face released a video for Pride Month featuring drag performer Pattie Gonia. The ad was similar to the one the performer appeared in for the outdoor-apparel maker a year earlier. The reaction was not.

Within hours, calls for a boycott of the company spread on social media. "The North Face wants to be the next Bud Light!" one user wrote. "Aren't you supposed to learn from others' mistakes?" another user said.

CEOs spent the past few years adjusting to a world in which investors, customers and employees expected corporate leaders to align themselves with social causes. Today,

that has made companies targets in the U.S. culture wars, where one step can turn a social-media storm into a corporate crisis that cripples businesses and wrecks careers.

Some CEOs are rethinking how—or whether—to weigh in on sensitive political or social matters, with trans and other LGBT issues particularly in the spotlight.

At PPG Industries, a Pittsburgh maker of Glidden paint, coatings and other products, Chief Executive Tim Knavish asked senior leaders at the company earlier this year to review its processes for engaging on polarizing topics. So many political and cultural issues have ensnared companies, Knavish said, that he wanted the company to have a ro- *Please turn to page A10*

## The Cast-Iron Skillet Wars: Should You Wash the Pan?

Die-hards insist that leaving their cookware alone creates a unique flavor

By Dave Sebastian

Cast-iron cookware has recently seen a resurgence. That means a rise in one of the most sizzling household debates around: How should you wash that pan?

Some people have a clear answer: You shouldn't.

Cast-iron aficionados shudder at the thought of letting soap near their pans. They will leave their beloved skillets un-

washed for years, even decades, and will talk at length about the unique flavor that creates. The only thing they hate more than soap is dish-washers.

Farangis Oakley, who grew up in Tajikistan and now lives in Raeford, N.C., is one of those who shuns soap when cleaning her pan, replacing it with good old-fashioned elbow grease. Oakley sometimes has *Please turn to page A10*

## Once More Unto France's Beaches



Former U.S. Army nurse Betty Huffman-Rosevear, 102, center, joined other veterans and officials in Colleville-sur-Mer on the 79th anniversary of the D-Day landings in Normandy.

This edition of THE WALL STREET JOURNAL was originally published in the United States and reprinted locally for regional distribution.



# U.S. NEWS

## World Bank Raises 2023 Growth View

By YUKA HAYASHI

WASHINGTON—The World Bank sees better global economic growth in 2023 than previously estimated, thanks to resilient U.S. consumer spending and China's faster-than-expected reopening in the early part of the year.

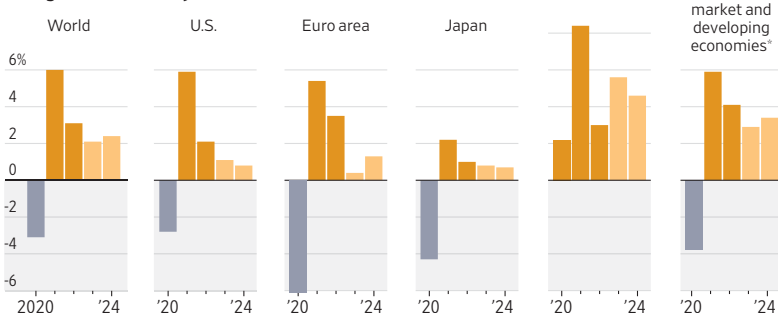
The bank still expects slowing growth in the second half of this year and a muted expansion into next year, according to its forecast released Tuesday. It warned that stubbornly high inflation and interest-rate increases are weighing on economic activity around the world, particularly in developing countries.

The bank now projects the world's economy will grow 2.1% this year, up from the 1.7% pace it forecast in January. The new estimate still marks a slowdown from last year's 3.1% expansion.

"The global economy remains in a precarious state," the multilateral lender said in the latest issue of its semiannual Global Economic Prospects report. The bank noted overlapping negative shocks from the pandemic, Russia's invasion of Ukraine and the sharp tightening of monetary policy.

The World Bank estimates that the global economy will grow 2.1% this year, and forecasts growth of 2.4% in 2024.

Change in GDP from a year earlier



\*Excluding China  
 Note: GDP for 2023 are estimates; 2024 are forecasts. Adjusted for inflation, and calculated using GDP weights at average 2010-19 prices and market exchange rates.  
 Source: World Bank

The bank forecasts growth of 2.4% next year—a pickup from this year, but not as much as its January estimate of 2.7%.

The somewhat improved 2023 outlook is consistent with other data showing the U.S. and much of Europe have so far avoided a recession that many forecasters expected heading into 2023.

Better-than-expected economic performances at the

start of the year have helped keep inflation stubbornly high in many advanced economies. As a result, policy makers in the U.S. and other rich nations have continued to raise interest rates to tame inflation. The World Bank says that the impact is felt particularly acutely in many developing nations.

For many lower-income countries, higher rates are crimping growth, slowing investment and intensifying the

risk of financial crises, the bank said.

"The possibility of more widespread banking turmoil and tighter monetary policy could result in even weaker global growth," the World Bank said. Rapid U.S. rate increases since early 2022 have created a pocket of volatility in the otherwise stable banking system, contributing to the failures of Silicon Valley Bank, Signature Bank and First Re-

## Jackson to Get Funds For Water System

By ALYSSA LUKPAT

Jackson, Miss., is set to receive \$115 million in federal funds to rebuild its aging water infrastructure after it failed last year and left residents without reliable running water for weeks.

The money comes from the \$600 million for Jackson's water system that Congress approved in December as part of a \$1.65 trillion spending law.

Federal lawmakers earmarked the funding months after Jackson experienced its worst water crisis in decades. After flooding devastated the city's main water-treatment plant last summer, Jackson's 150,000 residents faced weeks without water or with low water pressure. They were advised to boil the droplets that trickled out of their taps to make sure the water was safe to drink.

Local officials said the crisis was decades in the making, following smaller treatment-plant failures in past years. Residents had long complained about boil-water notices and poor infrastructure.

The capital city's water infrastructure was long neglected and would cost at least \$1 billion to repair, Jackson's mayor said in August. The Justice Department sued Jackson in November for failing to provide safe drinking water.

Water infrastructure throughout the country has been decaying for years, a multibillion-dollar problem growing worse by the day.

"These funds will help provide relief to Jackson residents, who have suffered decades of water insecurity," said Jackson Mayor Chokwe Antar Lumumba, a Democrat. "This aid helps to restore dignity to our city."

The Environmental Protection Agency, which announced the funds Tuesday, said the city's water system was still fragile and residents could have to boil their water again if officials don't manage the infrastructure better.

The city's water crisis prompted a fight between city leaders and state lawmakers over control of the water supply, highlighting tensions between the largely white, Republican state government and Jackson's Democratic, Black leaders. State leaders wanted a regional board to oversee the water system but later dropped their effort.

## U.S. WATCH



A LEGACY OF HER OWN: Françoise Gilot, a prolific painter also known for her turbulent relationship with the much older Pablo Picasso, died on Tuesday in a New York City hospital. She was 101 years old.

VIRGINIA

### Two Die in Shooting Outside Graduation

A newly minted high-school graduate was fatally shot Tuesday in Richmond, Va., in a barrage of gunfire that also left a second person dead and wounded five others, police said.

The shooting occurred around 5:15 p.m. outside the Altria Theater, which hosted Huguenot High School's graduation, Richmond interim Police Chief Rick Edwards said.

An 18-year-old male was killed following his graduation ceremony, along with a 36-year-old man, Edwards said. The other five shooting victims range in age from 14 to 58. One of them, a 31-year-old, suffered life-threatening injuries, the chief said.

Edwards said police arrested a 19-year-old male and planned to charge him with two counts of second-degree murder. Edwards said police think the suspect knew at least one of the victims.

Hundreds of people celebrating the day's graduation were in nearby Monroe Park at the time, and the gunfire sent people running in every direction, Edwards said. A 9-year-old girl was hit by a car in the chaos but is expected to recover, he said.

—Scott Calvert

FLORIDA

### Transgender Care Ban For Minors Blocked

A judge has temporarily blocked a new Florida law that prohibits gender-affirming medical care for transgender youth.

U.S. District Judge Robert Hinkle in the northern district of Florida issued a preliminary injunction Tuesday barring enforcement of the law signed by Republican Gov. Ron DeSantis in May.

Hinkle said Florida banned treatments that are widely accepted by the medical community. "The plaintiffs are likely to prevail on their claim that the prohibition is unconstitutional," he said.

More than a dozen states have passed laws this year prohibiting gender-affirming health care for transgender minors. Lawmakers supporting the bans say they believe the procedures could be harmful to children.

A spokesman for DeSantis said it is the administration's view that the injunction is limited in scope. "In this case, a single judge has decided that puberty blockers and cross-sex hormones should be made available to three young children," the spokesman said. "Florida's law otherwise remains in effect."

—Joseph De Avila

## PGA Tour, LIV Golf To Merge

Continued from Page One

"I recognize that people are going to call me a hypocrite. Anytime I said anything, I said it with the information that I had at that moment, and I said it based on someone that's trying to compete for the PGA Tour and our players," PGA Tour commissioner Jay Monahan said. "I accept those criticisms. But circumstances do change."

The move marks a jarring evacuation plan for two parties that had looked set to continue suing and countersuing each other into the ground, if necessary. The kingdom had craved entry into the golf world, and believed the Tour was illegally using monopoly power to block it. LIV was accused of trying to use the sport's popularity to whitewash the country's human-rights record, and Monahan, just a year ago, dubbed LIV "a foreign monarchy that is spending billions of dollars in an attempt to buy the game of golf."

The new, unnamed commercial entity is to be chaired by Yasir al-Rumayyan, governor of Saudi's Public Investment Fund. Monahan is slated to serve as chief executive. The Tour will appoint a majority of the board and hold a majority voting interest.

The talks between the two sides were so tightly held that LIV Chief Executive Greg Norman was informed of the development in a conference call shortly before Monahan and

al-Rumayyan recorded an interview talking about it. Players and sponsors also weren't consulted on the deal for confidentiality reasons, a person familiar with the matter said.

The sudden willingness of the PGA Tour to take money it had derided drew bipartisan skepticism in Washington.

"I wonder if the PGA Tour—having wrapped itself in the flag—invited 9/11 families to the big announcement? I guess it with the information that I had at that moment, and I said it based on someone that's trying to compete for the PGA Tour and our players," PGA Tour commissioner Jay Monahan said. "I accept those criticisms. But circumstances do change."

Roy's sentiment was echoed by groups representing 9/11 victims' families, who blame the kingdom for its role in the attacks. Most of the terrorists were Saudi nationals, but the country has denied involvement.

"We thought we had a true symbiotic relationship with the PGA Tour," said Brett Eagleson, president of the group 9/11 Justice. "The PGA Tour bashed the kingdom over its human rights, it used our talking points to do it. Now, we have to wonder, did they do that just to sweeten their deal?"

Sen. Chris Murphy of Connecticut, a Democrat, said in an interview that Monahan had urged him and other lawmakers to scrutinize the national-security implications of the Saudi project.

"They came to my office and told me it would be a moral outrage for Saudi Arabia to have an ownership stake in a major American sport," he said on Tuesday. "The announcement speaks for itself as to what really matters."

Murphy said the statement made clear what the priorities were: "It's all about the money."

The deal also comes after LIV had shown scant public evidence of financial success—though it continued to represent a formidable opponent in court. While the Saudis had pledged billions of dollars in their effort to disrupt golf, LIV's sponsorships were scant and when it finally landed a TV deal in the U.S., its events on the CW Network drew low viewership.

It remains to be seen how influential players, many of whom rebuffed lucrative offers potentially worth tens or hundreds of millions of dollars from LIV to stick with the PGA Tour, feel about the agreement. Four-time major champion Rory McIlroy, who had been one of LIV's staunchest critics, has a news conference set for Wednesday ahead of this week's PGA Tour event. Monahan described his meeting Tuesday with players as "heated."

The 2023 LIV Golf schedule will continue as planned, according to a memo Monahan



Steve Stricker teed off during the final round of the KitchenAid Senior PGA Championship in Frisco, Texas, late last month.

sent to employees reviewed by The Wall Street Journal. The memo says the sides will "work cooperatively to establish a fair and objective process for any players who desire to reapply

for membership with the PGA Tour" after this season.

Monahan's memo also said the deal prohibits any further recruitment of PGA Tour or LIV Golf members, and that the

## CORRECTIONS & AMPLIFICATIONS

The spotted turtle is threatened in New Hampshire. A May 23 Page One article about a New Ipswich tea-party business incorrectly said the spotted turtle is endangered in New Hampshire.

U.S. troops as of Sept. 30 totaled 53,973 in Japan; 25,372 in South Korea; 6,667 in Guam; and 211 in the Philippines, according to the Defense Department. A graphic with a World News article on Friday about U.S. military

presence in the Asia-Pacific region incorrectly gave Dec. 31 figures of 55,051, 8,772, 6,282, and 211, respectively, which excluded members of the Army.

A photo caption with a Business News article on Monday about Volkswagen's search for supplies to make electric-vehicle batteries incorrectly swapped the identification of VW's technology chief Thomas Schmall and Spain's King Felipe VI.

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## U.S. NEWS

# Appeals Court Hears Connecticut Transgender Sports Case

By LAURA KUSISTO  
AND LOUISE RADNOFSKY

A federal appeals court in New York considered a closely watched case Tuesday over transgender girls' participation in female competition categories for school sports, a combustible cultural question that also raises thorny legal issues.

The Second U.S. Circuit Court of Appeals, with all active judges participating, heard a 90-minute oral argument on a decade-old Connecticut policy that allows high-school students to compete on a team matching their gender identity, even if that differs from the sex listed on their original birth certificate.

The court is weighing a suit brought by four female high-school track-and-field athletes who say the policy makes it harder for girls to win in their sports because they have to compete against athletes with the physical advantages of male athletes, in violation of Title IX, the federal law barring sex discrimination in education. The court is also considering whether the plaintiffs suffered harms that would give them standing to make their claims in court.

Some judges questioned why athletes shouldn't be able to ask a court to correct records of competitive achievement based on allegedly discriminatory conditions.

Judge Steven Menashi, a Trump appointee, asked whether the state association

## The issue appears destined eventually for the Supreme Court.

governing athletic competition "can do whatever it wants with these records" without facing a legal challenge.

"The records accurately reflect the races that were run," said Peter Murphy, an attorney for the Connecticut Association of Schools.

Other judges expressed concern about the fairness of revisiting competitions in which two transgender athletes participated.

"They haven't done anything wrong," said Judge Beth Robinson, a Biden appointee. "The fact that a remedy might be difficult or might even seem unfair isn't a reason to ignore a federal law violation," said John Bursch, an attorney for the Alliance Defending Freedom, which is representing the plaintiffs.

Defenders of the Connecticut policy say that the claimed harms of including transgender athletes aren't real, and that striking down the policy would itself constitute discrimination by barring transgender female athletes from playing on the same sports teams as other girls.

Transgender girls and women's athletic participation has become a cultural and political flashpoint even though it involves a small number of athletes, splitting supporters of women's sports and roiling sports organizations.

Currently, 21 states bar transgender girls from entering female school-sports events, and U.S. appeals courts have yet to issue a major ruling on whether such bans pass constitutional muster. President Biden's administration has proposed a regulation that schools can't categorically ban transgender-athlete participation but can set eligibility criteria.

The issue appears destined eventually for the Supreme Court.

Proponents of restrictions often say athletes who have gone through male puberty have an unfair advantage or pose safety risks that undermine the rationale behind female competition categories. Opponents of restrictions regularly emphasize that transgender athletes benefit significantly from their participation in sports and that their presence marks a step toward greater representation of transgender people in everyday life.



New York City was covered with smoke on Tuesday. The air-quality reading was 159, an unhealthy level approaching those of Doha, Qatar, and New Delhi.

# Smoke From Canada Fires Blankets Sky

By ALYSSA LUKPAT  
AND PAUL VIEIRA

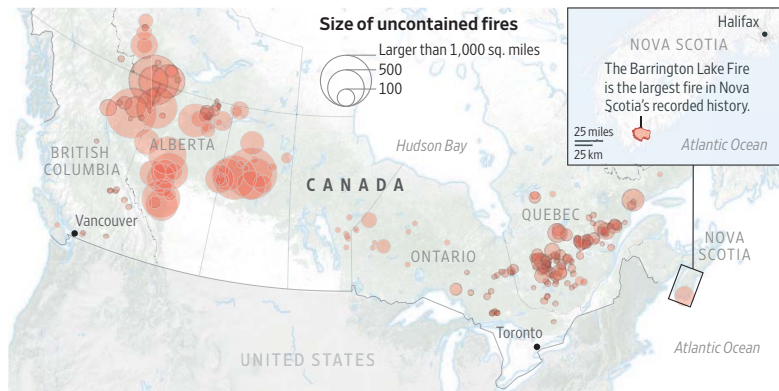
Millions of Americans in the Midwest and Northeast were under air-quality alerts Tuesday as smoke moving south from more than 400 active Canadian wildfires cast a pall over the skies and darkened the Manhattan skyline.

Canada's wildfire season is off to a blistering start this year, with more than 8.1 million acres of land already burned by early June, according to the country's natural resources department. In a typical fire season, about 600,000 acres would have been burned by this point.

The fires have sent smoke billowing into the U.S., where residents from the Dakotas to Massachusetts are inhaling smoky air. Warmer temperatures and drier conditions over the past four decades, in part the result of climate change, are contributing to more frequent, extreme forest-fire events in North America and around the world, scientists say.

The U.S. National Weather Service said millions of people in the eastern half of the country are under air quality alerts and are being asked to limit outdoor activities.

In New York City, state officials said the air quality reading Tuesday was 159, an unhealthy number approaching the levels of such cities as Doha, Qatar, and New Delhi. Residents in Washington, D.C. woke up to smoky skies Tues-



Note: As of 11:30 a.m. Tuesday

Source: Canadian Interagency Forest Fire Centre

Carl Churchill/THE WALL STREET JOURNAL

day and a "moderate" air quality level of 97, according to city officials.

While smoky haze has become a common experience in Western states like California, where mega wildfires have burned in recent years, the ash-gray skies and charred smells floating around the nation's most populous metropolis—even in the subway tunnels—were unusual.

Manhattan Borough President Mark Levine tweeted a photo of the smoke-laden skyline from his office and noted that it was obscuring the Empire State Building.

"Invisible now because of the smoke from Canadian fires," he wrote.

Levine said in an interview that he noticed more people wearing masks Tuesday and called the amount of smoke both unprecedented and jar-

ring. "For a city that lived through Covid, we're feeling a little bit of trauma because of flashbacks to the times when breathing itself could be a risk," he said.

New York Gov. Kathy Hochul and the state departments of environmental conservation and health issued an air-quality health advisory for several regions, including the city and Long Island.

"When many New Yorkers walked outside today, the hazy skies caused by wildfire smoke were hard to miss," Hochul said.

Officials warned residents to limit strenuous outdoor activity.

"People who are especially sensitive to the effects of elevated levels of pollutants, including the very young and those with pre-existing respira-

tory problems such as heart disease or asthma, should avoid spending time outdoors, if possible," said acting state Health Commissioner Dr. James McDonald.

Jose Arias, who was getting a shave and a haircut at a barbershop in Manhattan's Washington Heights Tuesday evening, half-jokingly likened the atmosphere to the one in the movie, "Red Dawn," and said the smoke had left the city smelling "kind of funny."

"I haven't seen so much smoke like this since the Twin Towers," Arias added, referring to the Sept. 11, 2001, terrorist attacks.

The Canadian wildfires have been raging for weeks from coast to coast. Jonathan Wilkinson, the Canadian natural-resources minister, said this wildfire season could be the most severe in the country's

history if the current trajectory continues. "This year's already-devastating season could well get worse," he said at a news briefing Monday.

Data from Canada suggest half of forest fires are caused by humans, mostly accidental such as from campfires, while the other half are ignited by lightning strikes, said Piyush Jain, an adjunct professor at the University of Alberta in Edmonton, and a research scientist at the Canadian Forest Service. "Overlaying all of that is climate," he said.

Last month was the hottest May on record in western Canada, Jain added. That is where about 5.5 million acres of forest have burned so far this season, causing some energy companies to temporarily curtail production.

Jain said a review of data, starting in 1979, suggests extreme fire events have been increasing globally.

"What's unusual about this fire season in Canada is you either have the west burning or you have the east burning or you have one area that is particularly challenging," he said. "Right now, we have fires occurring across much of the country."

Lightning sparked some of the fires, according to the National Aeronautics and Space Administration. Indigenous communities have been especially hard hit by the fires.

Of the more than 400 active wildfires, 249 were out of control, Canada's natural resources department said this week.

# Border Arrests Plunge Since End of Pandemic-Era Policy

By ALICIA A. CALDWELL  
AND MICHELLE HACKMAN

Arrests along the southern border have plummeted by about 70% after the expiration of Title 42 and the implementation of a new set of tougher rules for asylum seekers, the Biden administration said on Tuesday.

Title 42, a pandemic-era measure used to expel migrants before they could ask for asylum, expired on May 11. Since May 12, arrests of migrants crossing the border illegally have declined to an average of 3,400 a day, down from more than 10,000 a day in the days leading up to the policy's expiration, the government said.

The sudden drop in apprehensions at the border has so far defied predictions—made by Republican lawmakers and the Biden administration alike—that lifting the policy would result in an unprecedented surge of migration at the border.

Before May 11, Republicans and some Democrats coalesced around a bill that would have extended Title 42 for an additional two years, and even President Biden said he was expecting the border to be "chaotic for a while."

The unexpected drop in arrests is likely the result of a

## Florida Says It Put Migrants on Flights

Florida officials acknowledged the state organized two flights carrying migrants from New Mexico to California and sought to convey that they went voluntarily by releasing video footage of them signing forms and expressing gratitude.

The flights marked a re-sumption of Florida's controversial migrant-relocation program, which began last year with flights to Martha's Vineyard in Massachusetts. California officials looking into the most recent flights said mi-

grants were misled.

The Florida Division of Emergency Management on Tuesday issued a statement saying, "Through verbal and written consent, these volunteers indicated they wanted to go to California." A contractor ensured the migrants made it safely to the nonprofit Catholic Charities, according to the statement.

Aid workers in Sacramento said Tuesday the migrants reported being told they would be taken to a place where they would receive help with food, housing and finding jobs, but were left at a church office.

—Arian Campo-Flores and Alicia A. Caldwell

set of post-Title 42 policies the administration has put in place that stiffen consequences for illegal border crossers even more than the pandemic-era measure.

Under the new border regime, migrants who cross illegally must prove that they have applied for asylum in another country first—and have been rejected—to be eligible in the U.S. Those who are found ineligible are swiftly deported, and they face possible jail time should they try crossing again and get caught.

Migrants and the smugglers they hire to help them reach the border appear to have interpreted these rules as tougher than Title 42, and rather than waiting for the policy's end to come to the U.S., they rushed to reach the country before it did.

The new restrictions are accompanied by a separate, controversial move to allow migrants to make appointments using a mobile application to enter the U.S. through legal ports of entry and make their asylum claims.

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## U.S. NEWS

## Christie Enters White House Race

Former New Jersey governor sets sights on New Hampshire, and goes after Trump

BY ELIZA COLLINS  
AND JOHN MCCORMICK

MANCHESTER, N.H.—Chris Christie is a long shot to win the 2024 Republican presidential nomination, but his entry Tuesday into the race is certain to deliver a much more combative primary.

The moderate former two-term New Jersey governor, who in 2016 failed in his first nomination try, is known for his willingness to throw a political punch. Former President Donald Trump, who leads in national polls of Republicans, will be his principal target.

Christie filed his paperwork with the Federal Election Commission establishing his candidacy Tuesday afternoon and made his formal announcement Tuesday evening during a town hall at Saint Anselm College, promising not to shy away from confrontation.

"Beware of the leader who has never made a mistake, who has never done anything wrong, when something goes wrong it's someone else's fault and who has never lost. I've lost, you did that to me in 2016," he said, referring to his sixth-place finish in the New Hampshire primary in 2016.

He criticized other Republican hopefuls who have so far refused to criticize Trump directly. "Let me be clear in case I have not been already, the person I'm talking about who is obsessed with the mirror, who never admits a mistake,



Former New Jersey Gov. Chris Christie kicked off his 2024 run for the GOP presidential nomination on Tuesday in Manchester, N.H.

who never admits a fault and always finds someone else and something else to blame for whatever goes wrong, but finds every reason to take credit for anything that goes right is Donald Trump."

Christie plans to focus on New Hampshire, as he did in 2016, where independents can vote in primaries and more centrist Republicans are rewarded compared with Iowa, which is dominated by social conservatives. Iowa and New Hampshire will start the GOP nominating process early next year.

A gifted retail politician and debater who served as a U.S. attorney in New Jersey before being governor, Christie en-

dorsed Trump shortly after dropping out of the 2016 primary. He was the first truly high-profile establishment Republican to do so.

While the two men have a long personal relationship, it deteriorated faster once Christie became critical of Trump after he lost the 2020 election and refused to concede.

Florida Gov. Ron DeSantis, Trump's closest competitor in national polls, has also stepped up his criticism of the former president.

As Christie was speaking, Trump said on his Truth Social platform that Christie's speech was "Hard to watch, boring, but that's what you get from a

failed Governor."

Christie's entry adds to an already crowded field that includes former United Nations ambassador and South Carolina Gov. Nikki Haley, Sen. Tim Scott of South Carolina and former Arkansas Gov. Asa Hutchinson. Former Vice President Mike Pence filed paperwork with the FEC Monday ahead of a planned announcement Wednesday, and North Dakota Gov. Doug Burgum is expected to publicly launch his bid the same day.

Christie has been supportive of U.S. assistance in the war in Ukraine, taking a similar stance as Haley, Pence and Scott. That contrasts with the skepticism over American involvement ex-

pressed by Trump and DeSantis.

During his governorship, Christie was burdened by a controversy surrounding allegations that his political aides had closed lanes of the George Washington Bridge that connects New Jersey with New York to exact political revenge. The 2013 closures resulted in days of gridlock and were viewed by many as an act of political retribution against the mayor of Fort Lee for not endorsing Christie's re-election campaign for governor.

Christie wasn't accused of wrongdoing in the scandal, which came to be known as Bridgegate. But it still damaged his first presidential bid.

## Santos Cosigners Set to Be Revealed

BY CORINNE RAMEY

A federal judge on Tuesday ordered that the names of people who cosigned a bond for Rep. George Santos be made public, a day after the New York Republican said he would rather go to jail than put those people at risk.

U.S. Magistrate Judge Anne Shields granted requests made by news organizations to unseal the identities of the individuals who signed the bond that allowed for Santos's release while awaiting trial on fraud charges. She said the names would remain secret for now to give Santos time to appeal her order. Any appeal must be filed by Friday, she said.

The order, with the reasons for her decision, is under seal.

A spokeswoman for the U.S. attorney's office in Brooklyn, which is prosecuting the case, declined to comment. A lawyer for Santos didn't respond to a request for comment.

Federal prosecutors last month accused Santos of embezzling contributions, fraudulently obtaining unemployment benefits and filing false federal disclosure forms. He has denied the allegations and said he won't resign.

To be released pending trial, Judge Shields required him to obtain three cosigners on a \$500,000 bond. Media outlets then filed motions asking the judge to make the names public.

## Sequoia to Split China Business

Continued from Page One entities." The firm has hence decided to embrace what it called a "local-first approach."

The split takes place as the firm has come under increasing pressure from officials in Washington over its China business. U.S. national security officials have grown concerned about the two-way flow of money and information among tech companies and their investors. They worry that Chinese investors in U.S. tech companies could lead a foreign adversary to gain information about sensitive burgeoning technologies such as artificial intelligence.

They have also stepped up efforts to stop U.S. money from funding Beijing's development of sensitive technologies.

The Biden administration

has been preparing an executive order to prohibit some investments in China and other geopolitical rivals, targeting U.S. private-equity and venture-capital investments in advanced technologies that U.S. officials believe pose a national-security risk, according to people familiar with the administration's plans.

The new regulations would bar future investments in advanced-semiconductor and quantum-computing firms, while requiring disclosure of investments in older semiconductor technologies. The administration has discussed how to include investments in artificial intelligence in the plan, though officials have struggled to define which forms of AI pose a national-security risk, according to some of the people familiar with the plans.

Beijing, meanwhile, has pushed for splits of its own, such as a recent ban imposed on the use of chips made by U.S. manufacturer Micron.

Numerous U.S. venture firms have scaled back their Chinese investment operations

as a result of growing tensions and restrictions.

While geopolitical issues were a major driver in getting the talks started, by the end, the split was also about business concerns, people familiar with the matter said. As the China and India funds have grown, for example, they have sought to invest in companies in which the U.S. fund is already invested in a major competitor, the people said.

A storied firm founded a half century ago, Sequoia placed early bets on many of the world's most successful tech startups, including Apple, Google and Airbnb.

Backed by college endowments, nonprofits and other large asset managers, it has had an equally illustrious record in China.

Sequoia launched its China arm in 2005 and put it under the leadership of Neil Shen, one of China's best-known venture capitalists. The operation made early bets on food-delivery company Meituan and e-commerce marketplace Pinduoduo. It has stakes in hundreds of

other companies in the technology, consumer and healthcare sectors. More recently, it branched out into public-market and infrastructure investments, as well as buyouts.

Sequoia China currently has about \$56 billion in assets under management, according to a person familiar with the matter, who said U.S. investors currently account for about half of

## The venture firm has signaled a divide with its China and India branches.

its total investor base.

Among its most prominent holdings is a large stake in the Chinese tech giant ByteDance, the owner of short-video platform TikTok. Authorities in the U.S. have targeted the social-media platform, which is wildly popular with U.S. teens.

Sequoia has signaled a growing divide with its China

and India branches as the businesses grew rapidly.

In 2021, Sequoia announced a major change of strategy in its fund business that gave it more discretion about how to spread around investors' money. But the shift didn't include the China or India units. And when the firm named a new leader of its overall business, it chose top U.S. partner, Roelof Botha, passing over Shen.

For years, the units had operated with relative autonomy. Sequoia's U.S. operation raised its own funds for startup investing in the country and Europe, while Shen and his India-based counterpart, Shaileendra Singh, did the same in China and India—often targeting separate investors.

Still, all the units share operations with the larger U.S.-based Sequoia, which directed money from a large global fund into more mature startups in all three regions. Beneficiaries included companies like ByteDance.

Once separated, the three independent units will stop sharing back-office functions such as IT, finance and ac-

counting, Sequoia said in its investor note.

Last year, Sequoia China raised \$8.5 billion from global investors that included U.S. institutions, drawing scrutiny from U.S. officials and lawmakers, The Wall Street Journal reported previously.

Sequoia has had a rocky year. A plunge in tech and startup valuations erased billions of dollars in paper profits in Sequoia's venture funds, while the firm suffered a black eye for its investment in now bankrupt crypto exchange FTX.

Earlier this year, Sequoia Capital started allowing independent U.S. national-security experts to vet some of its China arm's potential investments, the Journal reported.

The investment screening will remain in place even after the separation, according to a person familiar with the matter. Sequoia China also manages a stable of domestic funds in China denominated in the country's local currency, the yuan.

—Andrew Duehren and Aruna Viswanatha contributed to this article.



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## U.S. NEWS

# Ruling Weakens Gun Ban for Convicts

Appeals court reverses lifetime restriction for man who committed food-stamp fraud

By JACOB GERSHMAN

A federal appeals court on Tuesday weakened a federal law prohibiting firearm possession by individuals convicted of serious crimes, ruling that a Pennsylvania man convicted of food-stamp fraud has a constitutional right to arm himself.

The ruling by the Philadelphia-based Third U.S. Circuit Court of Appeals reversed an earlier decision upholding a lifetime gun ban against the man. It marked the first time since the Supreme Court expanded Second Amendment

rights last year that a U.S. appeals court held that people convicted of fraud and other nonviolent crimes don't automatically lose their constitutional right to bear arms.

The plaintiff in the case, Bryan David Range, pleaded guilty in 1995 to concealing his income to obtain about \$2,500 in food stamps. Other than that offense, he has had a clean criminal history apart from minor traffic, parking and fishing infractions, his lawyers said. He served no time behind bars, but because the food-stamp offense carried a maximum punishment of five years of imprisonment, it permanently disqualified him from possessing firearms under a decades-old federal law.

Range argued in a lawsuit supported by gun-rights advo-

cates that the lifetime ban violated his rights, preventing him from buying a deer-hunting rifle and a shotgun to defend himself. The Third Circuit, rehearing the case with an expanded roster of judges participating, agreed with him. The court in a divided ruling said the federal government failed to show the ban was consistent with Founding-era treatment of people convicted of such nonviolent offenses.

"We hold that the Government has not shown that the Nation's historical tradition of firearms regulation supports depriving Range of his Second Amendment right to possess a firearm," Judge Thomas Hardiman, a George W. Bush appointee, wrote. "Range remains one of 'the people' protected by the Second Amendment."

Other judges in a concurring opinion said the ruling speaks to Range's situation and doesn't suggest that murderers, thieves, sex offenders, domestic abusers and other violent criminals have gun rights.

Several dissenting judges said the decision runs counter to the Supreme Court's prior suggestions that the felon gun ban is presumptively lawful.

Nearly a year ago, the Supreme Court in *New York State Rifle and Pistol Association v. Bruen* recognized a Second Amendment right to arm oneself outside the home for self-defense, striking down New York's strict licensing rules for carrying concealed handguns in public.

In doing so, the conservative-led bench fundamentally changed how lower courts are

supposed to decide if gun restrictions are constitutional.

Before Bruen, lower courts had often balanced the rights of gun owners against the public-safety objectives of a challenged law. The Supreme Court rejected that approach and directed judges to focus instead on whether a gun law comports with the nation's tradition of firearm regulations. It put the burden on the government to show that a modern-day gun law is similar to how states restricted firearms in the late 1700s or 1800s.

The ruling reinvigorated challenges to a range of gun laws, including provisions of the federal Gun Control Act of 1968, the law that makes it illegal for certain classes of people to possess firearms. Judges have also clashed on whether

alleged domestic abusers, drug users and gun owners under felony indictment have gun rights.

One question left unanswered by the Supreme Court is whether the Second Amendment covers people who have broken laws but aren't necessarily dangerous.

The appeals court rejected the Justice Department's argument that only law-abiding, responsible citizens are protected by the Second Amendment. Judge Hardiman said that standard was too vague and loose.

A Justice Department spokesman declined to comment.

"Mr. Range has been vindicated after this very lengthy legal fight," said one of his attorneys, Michael Gottlieb.

# Bill Backs Return of Whole Milk to Schools

By KRISTINA PETERSON

WASHINGTON—A bipartisan group of lawmakers is pushing to bring a banned substance back to schools: whole milk.

A bill approved on Tuesday by the House Education and the Workforce Committee in a 26-13 vote would allow schools to offer whole and 2% milk. Supporters, including the dairy industry and more than 100 lawmakers, say children are more likely to drink milk when it tastes better to them. Opponents say children can get the same nutrients from lower-fat milk while keeping saturated fat in check.

"We have seen students opt out of consuming milk altogether if they don't have access to a variety that they enjoy," Rep. G.T. Thompson (R., Pa.), the chairman of the House Agriculture Committee, said during Tuesday's debate. "Let's face it: the only way to benefit from milk's essential nutrients is to consume it."

Schools participating in the Agriculture Department's school meals program haven't been permitted to serve either whole milk—which has 3.25% milk fat—or 2% milk, since 2012, when new rules went into effect intended to align school offerings with the country's dietary guidelines. Those recommendations advise that children over the age of 2 should consume either nonfat or 1% milk as part of an effort to limit how much saturated fat they consume.

Opponents of the milk legislation said lawmakers shouldn't be meddling with the recommendations crafted by nutrition officials.

"It's vital that any nutrition standards are guided by science, not politicians," said Rep. Bobby Scott of Virginia, the top Democrat on the House Education committee.

But fellow Democratic Rep. Kim Schrier of Washington, a pediatrician, said offering additional milk choices is likely to encourage children to



Supporters of the measure, including the dairy industry, say that children are more likely to drink milk when it tastes better to them.

choose milk over another, less healthy beverage.

"I would much rather have children drinking milk, even whole milk, than juice," said Schrier, a co-sponsor of the bill.

For the dairy industry, the push to offer whole milk in schools is part of an effort to ensure that students grow into milk-drinking adults. Whole and 2% milk are the most commonly sold varieties, the USDA says, so students are most used to their taste at home, dairy-industry officials said.

"Kids in school are where the milk drinkers and consumers of tomorrow are formed," said Peter Vitaliano, chief economist at the National Milk Producers Federation.

Sales of drinking milk are declining as fewer people eat cereal at home in the morning, while sales of other dairy products such as cheese and

powdered milk and whey have increased, he said.

But Meghan Maroney, who leads federal child-nutrition programs at the Center for Science in the Public Interest, a food and health watchdog group, said most children al-

## Dietary guidelines say children over age 2 should drink nonfat or 1% milk.

ready consume too much saturated fat, which would be exacerbated with the addition of higher-fat milk. "Congress should not be reversing this hard-fought win by making school meals less healthy by allowing whole milk," she said.

Much of the debate around whole milk centers on the

question of whether fat from dairy products is different from saturated fat coming from other foods.

Some researchers have conducted studies showing that full-fat dairy products haven't led to a higher risk of weight gain in children and may help them feel full more quickly.

"For a long time we lumped all saturated fats together. The story is more complicated than that," said Erin Hennessy, a child-nutrition researcher at the Friedman School of Nutrition Science and Policy at Tufts University. "People are becoming a little bit more open to the idea of whole milk," she said.

The committee working on the next set of national dietary guidelines has said it would look at the question of whether the food source of saturated fat has implications for heart disease and the relationship between milk consumption and risks of obesity

and diabetes.

The national dietary guidelines and recommendations from the American Heart Association still advise that children over age 2 consume low-fat or fat-free milk. These are lower in calories and saturated fat, which the AHA says can increase cholesterol and boost the risk of heart disease and strokes.

Some groups, including the nutrition arm of the Robert Wood Johnson Foundation, said there isn't enough evidence yet to overturn the official guidelines.

Some nutrition researchers have said a bigger factor in determining whether children will drink milk is whether it is flavored, for example with chocolate. The Agriculture Department is currently deciding whether to eliminate flavored milk from elementary and possibly middle schools to cut down on added sugars.

# Columbia Pulls Out of U.S. News Ranking

By MELISSA KORN

Columbia University will no longer provide data to U.S. News & World Report's undergraduate college rankings, making it the highest-profile snub to date and potentially paving the way for other schools to exit from the publication's marquee product.

Columbia came in at No. 18 on last year's list, after saying it had reported incorrect data about its class sizes, instructional spending and other topics to the publication; for last year's list, U.S. News relied on other, publicly available, information to judge the school. Columbia previously stood at No. 2 and hovered near the top spot for years. Even at the lower position, Columbia is still the highest-ranked school to depart. The undergraduate rankings are generally released in September.

"We remain concerned with the role that rankings have assumed in the undergraduate application process, both in the outside influence they may play with prospective students, and in how they distill a university's profile into a composite of data categories," Provost Mary Boyce and other administrators wrote Tuesday. "Much is lost in this approach."

U.S. News & World Report says it provides valuable consumer journalism to help people navigate life decisions, and will continue to rank Columbia. Each year, it sends schools detailed questionnaires seeking information on topics including class sizes and financial resources.

"Students deserve to have a place where they can equitably compare schools to help determine which college is the best fit for them," CEO Eric Gertler said after Columbia's announcement.

# SEC Crypto Crackdown Widens

Continued from Page One

said Coinbase "is between a rock and a hard place." "Coinbase is now facing a situation where it has to defend in court most of its operations and its only alternative is to pivot, which is extremely difficult," Palmer said. Coinbase generated more than 80% of its 2022 revenue in the U.S.

Investors punished the company. The stock fell 12%, and its bonds declined into distressed territory.

The SEC alleged that Coinbase traded at least 13 crypto assets that are securities and should have been registered with regulators before they were issued. Registration typically involves giving investors financial statements and detailed risk disclosures that are reviewed by regulators.

Because Coinbase made those tokens available for trading, and because the SEC alleges they are securities, the company was required to register as an exchange, brokerage and clearing agency, the SEC said.

The SEC can only regulate digital coins that are classified as securities, and the agency has said that most crypto tokens fall within that category. The SEC hasn't put bitcoin and ether, the two largest cryptocurrencies, on that list.

Coinbase allowed investors to trade about 254 digital tokens on its platform as of March, the SEC said, including Solana, Cardano, Polygon, Filecoin, The Sandbox, Axie Infinity Shards, Chiliz, Flow, Internet Computer, Near Protocol, Voyager Token, Dash and Nexo. The issuers of many tokens disagree with being classified as securities.

Last year, about half of Coinbase's transaction revenue came from bitcoin or ether.

"Coinbase has earned billions of dollars in revenues by, among other things, collecting transaction fees from investors whom Coinbase has deprived of the disclosures and protections that registration entails and thus exposed to significant risk," the SEC said.

The SEC also labeled the Coinbase Earn staking program, which allows investors to earn interest on their tokens, as an unregistered security. Coinbase previously maintained that its staking products aren't securities.

Coinbase is one of the few publicly traded crypto compa-



The SEC accused Coinbase, the nation's largest crypto exchange, of acting as an unregistered broker.

nies and one of the best known. Its biggest shareholders include Vanguard, Cathie Wood's ARK Investment Management, Fidelity, BlackRock, Morgan Stanley and Goldman Sachs, according to FactSet. The companies declined to comment or didn't comment.

Coinbase went public during the crypto bull market, in

April 2021, and opened at \$381 a share on its first day of trading.

Coinbase shares closed at \$51.61 on Tuesday, though they are up 46% for the year. Other crypto assets are also up this year, part of a broader rebound in riskier assets including technology stocks.

Still, last year's collapse of

crypto exchange FTX and the plunge in cryptocurrencies soured many individual investors on the idea of digital assets. Last month, Coinbase posted its fifth consecutive quarterly loss.

Dan Dolev, a senior financial-technology analyst at Mizuho Securities USA, said in a Monday note that heightened

industry scrutiny could potentially put more than one-third of Coinbase's revenue at risk.

If more digital coins have to be registered, he said, the "cumbersome process" and "risk of application denial for tokens" could hamper Coinbase's ability to generate transaction revenues.

The SEC warned Coinbase in March that it planned to sue the company.

Coinbase has countered with a legal and public-relations campaign, telling lawmakers that the agency is making a power play to oversee a new technology that doesn't fit within its rules.

While clashing with regulators at home, Coinbase has been trying to expand into international markets.

In May, Coinbase launched a crypto derivatives exchange in Bermuda after obtaining a regulatory license to operate in the country.

In recent months, the company has released a slew of products and services and hired personnel in Singapore, Brazil and Canada.

As of April, Coinbase accounted for 53% of crypto spot trading volume in the U.S. but only 6.5% of global volume, according to Kaiko, a digital-assets-data provider.

—Caitlin Ostroff, Paul Kiernan and Akane Otani contributed to this article.



## WORLD NEWS

## Strikes Inside Russia Rattle Residents

Putin's image of invincibility is shaken as concerns grow that the war will expand

BY YAROSLAV TROFIMOV

Viktor Bondarenko, a Russian art collector, was jolted awake by the sound of explosions over his upscale Moscow suburb on May 30. Russian air defenses were blasting away at Ukrainian drones.

Bondarenko's wife wanted to shelter in the cellar, he said in an Instagram post, but he "didn't want to be buried in the basement should something strike." One good thing, he said: "The kids are in Milan."

Drone strikes inside Russia are now a near-daily occurrence. Those in Moscow have had limited military impact. But, along with hits on refineries and airfields, ground incursions in the southern Belgorod region and assassinations of several prominent Russian war supporters, the attacks have caused a psychological shift.

Fifteen months after President Vladimir Putin invaded Ukraine, expecting a quick victory, the war has come to the heart of Russia. The country's elites, who believed themselves safe as the invasion campaign rumbled far away, are rattled.

As Moscow struggles with how to respond, each new attack is a blow to the official narrative of Russian supremacy and a challenge to Putin's image of invincibility.

"The society is starting to worry: Will the war expand inside Russia?" said Tatiana Stanovaya, a senior fellow at the Carnegie Russia Eurasia Center. "There is a slow internal erosion under way, in attitudes towards the war and towards the elites."

Recent fighting in Belgorod has turned the midsize Russian city of Shebekino, once home to 40,000 people, into a ghost town. About 500 residents remain. Looters have broken into hospitals, stores



About 500 projectiles have been fired at the Russian city of Shebekino in the past 24 hours, local officials said.

and government buildings. Russia's military has proved unable to defend the border.

Ukrainian attacks have caused a patriotic backlash among some ordinary Russians, but on balance such a destabilization benefits Kyiv, said Stanovaya. "It damages the regime, and above all it damages the system of power."

#### Opposition weighs in

Few Western officials doubt that Ukraine is carrying out the strikes inside Russia. But, maintaining politically expedient ambiguity, Kyiv has stopped short of acknowledging responsibility for the attacks. It describes the cross-border operations as a spontaneous uprising by Russians fed up with the Putin regime.

Yevgeny Prigozhin, the owner of the Wagner paramilitary group, has seized on the new sense of vulnerability to intensify his power struggle

with Russia's regular military and other officials. Pointing out that Russia's top military and political leaders live in the same elite suburbs west of Moscow as Bondarenko, the art collector, Prigozhin embraced populist gloating in the wake of the drone attack.

"Let your homes burn!" he thundered in a recording posted on Telegram. "But what should ordinary people do when explosive-laden drones hit their windows?" Last weekend, after the Russian army failed to prevent yet another incursion in Belgorod by a small group of Kyiv-backed Russian fighters, Prigozhin declared, "We have a problem with balls in this country."

Russian opposition figures say the demonstrated military successes of the Ukrainian-backed Russian units in Belgorod represent an alternative way to take on Putin's government for dissidents whose choices had

been restricted largely to leaving the country or facing lengthy prison terms for trying to engage in peaceful protests

"This has become a very important event for all of us," said Marat Gelman, a former Putin adviser and former senior state TV executive who now lives abroad and backs the democratic opposition. "The Russians finally can have a role in this war. They have something to do."

#### Putin plays down attacks

In Moscow, too, the mood is changing. Konstantin Zatulin, a prominent lawmaker from Russia's ruling party and deputy chair of the committee on relations with former Soviet republics, told a conference last week debating the future of Ukraine that the February 2022 invasion was a mistake and a trap.

Destroying Ukrainian statehood is beyond Russia's capacity, he said, and none of the goals of

the Kremlin's "special military operation" has been achieved. As for Moscow, he added, some people have begun doubting that Russia's capital is a safe place.

"The high motivation of the Ukrainian army doesn't come from nothing. It comes from a conviction that we are the aggressor. That we started it. That we came to their home and that we exterminate them," said Zatulin, known for his hawkish views on Ukraine.

Putin has played down the attacks. In bland remarks after the May 30 drone assault on Moscow, he minimized it as a retaliation for a Russian missile strike that had targeted the compound of Ukraine's HUR military-intelligence agency in Kyiv, and praised Russian air defenses.

Putin also has remained largely silent about the fighting that rages on Russian soil in the Belgorod region, leaving public statements to the local governor. State TV has paid limited

attention to these events.

"They are trying hard to hide it all," said Ilya Ponomarev, the only Russian parliament member to vote against the annexation of Ukraine's Crimean Peninsula in 2014 who now serves as political coordinator of the Freedom of Russia Legion, one of the two Ukrainian-backed Russian units fighting in Belgorod.

"Putin must look victorious, the guarantor of security," said Ponomarev. "But if everything is dangerous and the enemies are already on Russian territory, he looks like a loser."

#### War hits closer to home

A paper published last September by Ukraine's top military commander, Gen. Valeriy Zaluzhnyi, and one of his current top aides, Lt. Gen. Mykhailo Zabrodsky, outlined the philosophy behind the cross-border campaign.

"The real center of gravity for the Russian Federation in the war," the two generals explained at the time, "lies in its 'remote' nature, in the perception of most Russians." The Ukrainian military's task for 2023, they said, would be to bring the war closer to ordinary Russians and make them feel its true costs.

Wary of provoking Putin, the U.S. and its allies have secured commitments from Kyiv not to use Western-provided weapons against targets on Russian soil. It is a pledge that Ukraine has honored, limiting the use of these weapons to Russian-occupied areas within Ukraine.

While the drone strikes on Moscow have mostly had a psychological effect, the incursions in Belgorod serve a clear military purpose: To draw Russian military units away from front lines in eastern and southern Ukraine, increasing the chances of a Ukrainian offensive there.

Kyiv has said no Ukrainian citizens have crossed the border in these raids. "It won't be the Ukrainian army that will be conquering some territories," Ponomarev said. "But we Russians...will reach all the way to Moscow. It will be a liberation by Russians, not an invasion of the Ukrainians."

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Our friend and colleague, **Evan Gershkovich**, was detained by Russia on March 29 during a reporting trip and accused of espionage. The Wall Street Journal and the U.S. government vehemently deny the allegation and have called for his immediate release.

Evan's Journal colleagues will be sharing stories of their work with him each week.

To show support for Evan, please follow the latest updates at [WSJ.com/Evan](https://www.wsj.com/Evan) and add the hashtag **#IStandWithEvan** across social media.



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Evan is completely dedicated to the mission of reporting from the ground in Russia, which brings life to his storytelling and brings something very special from that country to all of our readers.

It's very different to actually go there, to get under the skin of the society and understand all the various dynamics at play. It takes a lot of courage, a lot of smarts. It takes a great deal of charisma, which Evan has loads of. I think one of the greatest things he is able to bring to his reporting is the sense that he is interested in their story. People want to talk to him.

I lived in Russia for 11 years and I really valued knowing what it was like. It was great to have somebody that you could have a deep conversation with about the way that Russians are feeling. Evan understands how average people are feeling, what they may be saying about the war in Ukraine and what they may not be saying about the war. And you have to understand what's left unsaid is often as important as what is said.

We would always have conversations about not just the people, but the motivations behind them and what led them to this point in their lives. I love fleshing out all the nuance with him as somebody who cares deeply about Russia and the way that it's covered.



**Thomas Grove**  
WSJ Eastern Europe Correspondent

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# #IStandWithEvan

THE WALL STREET JOURNAL.



## WORLD NEWS

# Major Dam In Ukraine Destroyed

Continued from Page One

2014. The flooded region would have been one pathway to do so.

Still, military analysts had seen a Ukrainian assault across the river as an unlikely option given the difficulty and likely cost of such an operation, as well as Ukraine's lack of amphibious capabilities.

In one upside for Ukraine, the flooding could wash away fortifications and minefields put up by Russian forces.

The dam had already suffered damage in October when sections of it and sluice gates were destroyed as Russian forces sought to retreat from Kherson amid an ultimately successful Ukrainian offensive to retake the southern city. Ukraine and Russia at the time accused each other of plans to blow up the dam.

At the White House, National Security Council spokesman John Kirby said the U.S. hadn't reached a final determination on who destroyed the dam. "We're still trying to assess what happened here, but the Russians had illegally taken over that dam and the reservoir many months ago and they were occupying it" at the time of its destruction, Kirby said.

Jens Stoltenberg, the secretary-general of the North Atlantic Treaty Organization, said the dam's destruction was "an outrageous act, which demonstrates once again the brutality of Russia's war in Ukraine."

A senior NATO official said it was too early to say who was responsible. "Russian actors most likely have a motive," said the official. "It's the Russians that stand to benefit from the dam not being there."

President Volodymyr Zelenskyy of Ukraine said he had convened his national security and defense council to discuss the incident. "We're doing everything to save people," Zel-

ensky said in a post to his Telegram channel. He previously said the dam's destruction, which he blamed on Russia, "only confirms for the whole world that they must be expelled from every corner of Ukrainian land."

Russia blamed the dam's collapse on Ukrainian shelling overnight into Tuesday.

"We can definitely declare a deliberate sabotage on the part of the Ukrainian side," Kremlin spokesman Dmitry Peskov said. The sabotage was aimed to deprive Crimea of water and distract attention from the failure of the Ukrainian offensive, Peskov said.

Footage posted online in the early hours of Tuesday showed vast quantities of water moving downstream from the power station and flowing through spaces where buildings comprising the power station have collapsed or been blown up. The dam contains about 18 million cubic meters of water, according to Ukrainian officials, and flooding endangers more than 80 settlements, including the major regional capital of Kherson.

Tetiana Morozova, the regional director of Ukraine's postal service who is currently in Kherson, said the city center had so far been spared from flooding because it lies on higher ground, but areas closer to the Dnipro River and many surrounding villages were submerged.

Trains were evacuating people from the city, and volunteers were handing out humanitarian aid, she said. Some residents were walking knee-deep through the streets carrying dogs or cats they don't want to leave behind, she said.

"There was panic in the morning but now it has passed. People can see they are being cared for," she said.

The destruction could affect the water supply to the Zaporizhzhia nuclear-power plant, which relies on the reservoir to cool its reactors, experts say. A spokesman for Ukraine's state nuclear-energy company said water levels in the Kakhovka reservoir that supplies water to the facility were rapidly decreasing, but levels inside the plant's cooling pond were currently sufficient.



Resident Tetiana holds her pets, Tsatsa and Chunya, inside her flooded house after the Kakhovka dam blew up in Kherson, Ukraine. The flooding could endanger more than 80 settlements.

A major dam and power plant on the Dnipro River were destroyed, suddenly transforming the river's flow and causing serious flooding.



All of the plant's six reactors have been in cold shutdown mode for months and the flooding is happening downstream from the facility. Reactors in shutdown mode still need small amounts of water for cooling, but the plant has sufficient reserves as part of its contingency plans, said Mark W. Nelson, managing director of Radiant Energy Group.

The Moscow-appointed

mayor of Nova Kakhovka, the Russian-occupied town that adjoins the dam, said shelling at around 2 a.m. on Tuesday had caused it to collapse. He didn't specify from which side the shelling had come.

"As a result, water from the Kakhovka reservoir has begun to flow uncontrollably downstream," the Russian-appointed official, Vladimir Leontyev, was quoted as saying. The governor of Ukraine's

Kherson region, which is partly controlled by Russia, said that water levels were expected to reach a critical point within five hours, and that authorities had begun to evacuate Ukrainian-controlled settlements closest to the dam.

Mustafa Nayyem, the head of Ukraine's State Agency for Restoration and Infrastructure Development, said the destruction of the power station could have catastrophic consequences

for the Zaporizhzhia plant.

The Kakhovka power station supplies electricity to more than three million people in Ukraine and is a crucial part of the country's energy infrastructure, Nayyem said. It also supplies water to the Russian-occupied Crimean Peninsula, which is part of Ukraine's sovereign territory.

"Blowing up the Kakhovka Hydroelectric Power Plant will have devastating consequences, including a decadelong water shortage in Crimea, irreparable damage to hundreds of thousands of lives, and the risk of drowning for thousands," Nayyem said.

The flood will also hit Ukraine's large agricultural industry, which is one of Kyiv's main sources of revenue and a key supplier of grains for the developing world. Video footage on social media showed submerged grain storage while local farmers said that water above the dam was used to irrigate their crops. Farmers in occupied Crimea will also be hit because this water is key to their own harvests.

Grain futures rose on the back of the destruction. Chicago wheat futures were up 1.9% and corn gained 0.8% in morning European trade.

The dam has been destroyed before in its long history. The Soviets demolished it in 1941 to halt the advance of Nazi Germany's troops in World War II. The Nazis then repaired it, only to blow it up again when they were retreating in 1943.

Meanwhile, House Speaker Kevin McCarthy (R., Calif.) declined to commit to providing additional financial support for Ukraine, showing the continued influence of his party's right flank and putting him in direct conflict with Senate Republicans who want more military spending beyond what Congress passed last week.

—Alistair MacDonald and Siobhan Hughes contributed to this article.

## Watch a Video



Scan this code for a video on the effects of the dam's destruction.

# Explosion Shakes Farmers, Pushes Up Grain Prices

By YUSUF KHAN AND ALISTAIR MACDONALD

The destruction of a major dam in Ukraine heaped further pressure on the country's beleaguered agriculture sector, a major source of revenue for Kyiv, while sending prices of grains and other produce higher around the world.

The dam was destroyed early Tuesday, and footage posted online showed vast amounts of water gushing downstream, endangering settlements and potentially threatening the safety of Europe's largest nuclear power plant.

Ukraine and Russia blamed each other for the disaster.

Footage showed flooding of grain-storage facilities. Some local farmers said that irrigation of their land was dependent on the huge reservoir held back by the dam.

"My business is over because we will not have water at all," said Petro Grigoriev, an asparagus farmer just north of Crimea in a Russian-occupied part of the Kherson region. He said that while his fields weren't flooded, his crop is watered from a canal that is fed directly by the reservoir.

Ukraine is responsible for a large chunk of global agricultural exports and Russia's 2022 invasion sent prices of grains



A recently demined field was plowed in the Kherson region in May.

and other produce sharply higher, adding to global food inflation and worsening food shortages in some developing countries. Agriculture also represents more than half of Ukraine's export revenue, which Kyiv depends on to finance its battle against Russia.

Wheat futures Tuesday rose 3.7% in thin morning trading before falling back slightly, while corn futures increased 1.6%.

The regions expected to be affected by the dam breach—Kherson, Mykolaiv and Zaporizhzhia—account for about 12% of Ukraine's agricultural output, according to a report by French bank Crédit Agricole, a European Union-funded body and others published in Janu-

ary. The area is a particularly large producer of vegetables, barley and tomatoes, said the report and farmers.

Ukraine's Ministry of Agrarian Policy and Food said early estimates suggest that about 25,000 acres of agricultural land has been flooded on the right bank of the Dnipro River in Kherson and "several times more" on the opposite, occupied, side of the waterway.

Moreover, the disaster will stop the supply of water to 31 field-irrigation systems. Each system irrigates some 1.4 million acres of farmland and the land could have yielded a total of some \$1.5 billion worth of grain and oil seeds, the ministry said.

# U.N. Court Hears '14 Crimea Case

By JESS BRAVIN

Ukraine asked the International Court of Justice to declare Russia in violation of treaties against terrorism financing and racial discrimination for actions dating from 2014 in occupied Crimea and the Kremlin-controlled Donetsk and Luhansk regions.

At a Tuesday hearing at The Hague, Ukraine's delegation pressed arguments that Moscow's disregard of treaty obligations led to numerous atrocities and war crimes in those regions, from the downing of a Malaysian airliner in

2014 by militants supplied with Russian arms to the continuing suppression of ethnic Ukrainian and Tatar cultures.

Ukraine filed the case in January 2017, five years before the outright invasion. Kyiv's representative, Anton Korynevych, told the court that the international community's failure to respond to Russian actions nearly a decade ago helped encourage the 2022 invasion that launched Europe's largest war since 1945.

Tuesday morning's session was devoted to Ukraine's allegations that by sending supplies and support to pro-Russian militants—or turning a

blind eye while Russian oligarchs and independent groups did so—Moscow violated its duties under the International Convention for the Suppression of the Financing of Terrorism.

In the afternoon, Kyiv argued that the suppression of Ukrainian-language instruction and the dissolution of the Mejlis, the governing body of the Crimean Tatar community, breached the International Convention on the Elimination of All Forms of Racial Discrimination.

Russia, which denies violating the treaties, is set to begin its defense on Thursday.



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## FROM PAGE ONE



Above, a Los Angeles Dodgers Pride promoter at a parade in West Hollywood on June 4. Right, a display at a Target in San Francisco on May 31. Both the Dodgers and Target felt a backlash from their LGBT promotions and revised their plans.

## Firms Try To Avoid Culture Wars

Continued from Page One  
must plan should it need to respond.

"There's no pure algorithm to put all this stuff in a spreadsheet to tell you what to do," he said.

PPG uses an internal scoring system to determine if, and when, it makes sense for the company to comment on matters that may offend some of its customers and employees or affect its brands. Senior leaders, including representatives from the legal department and human resources, meet regularly to discuss the pros and cons of taking a position. If executives do decide to comment, they then discuss how best to communicate. Knavish said he re-examined an older evaluation process the company used in light of recent blowups.

"We run a business. We don't run a political organization. We don't run a religious organization, and we don't run a social organization," Knavish said. "However, [we] recognize that we operate in a society. We hire employees with opinions and views. We work with customers that have opinions and views. So we have to take all that into account."

### Pleasing no one

Executives are finding out how easy it is to leave everyone unhappy. After a Bud Light promotion with a transgender social-media influencer sparked a boycott of the beer, the brewer put two marketing executives on leave and still took a hit on sales, while also ranking employees and supporters of the LGBT community. Days after Target's LGBT retail displays sparked a social-media backlash and confrontations between store visitors and employees, the company said it would remove certain items and move some displays to less-visible locations, drawing criticism from LGBT supporters.

Over the past decade, companies have become more vocal on causes such as immigration, voting access, abortion, gay rights and racial equity, often taking stances shared by progressives. Many executives said they felt pushed by employees or customers to express an opinion on issues rippling through society.

What is changing now, executives and corporate advisers said, is that conservative groups and political leaders are pushing back against companies more forcefully. Consumers are also more openly expressing frustration that

companies are airing views in ways some don't welcome.

"The divisiveness in the country—it's got more teeth, it's got more anger I think than anybody really anticipated," said Jim Fielding, a former chief executive of retailer Claire's Stores and a former president of Disney Stores who is now an executive at the media company Archer Gray.

### Testing ideas

At Upwork, which operates a marketplace for freelance workers and other professionals, Chief Executive Hayden Brown said she and her leadership team have developed an internal rubric over the past three years that has proven helpful in determining how to handle delicate issues.

The company considers a series of questions when deciding whether to weigh in: "How central is this topic to our business, to our customers? Does it really concern them? Would they expect us to be opining on this because it really intersects with their day-to-day lives?" she said. "We don't think it's our job to opine on everything. But at the same time, it's not our job to stay on the sidelines, either."

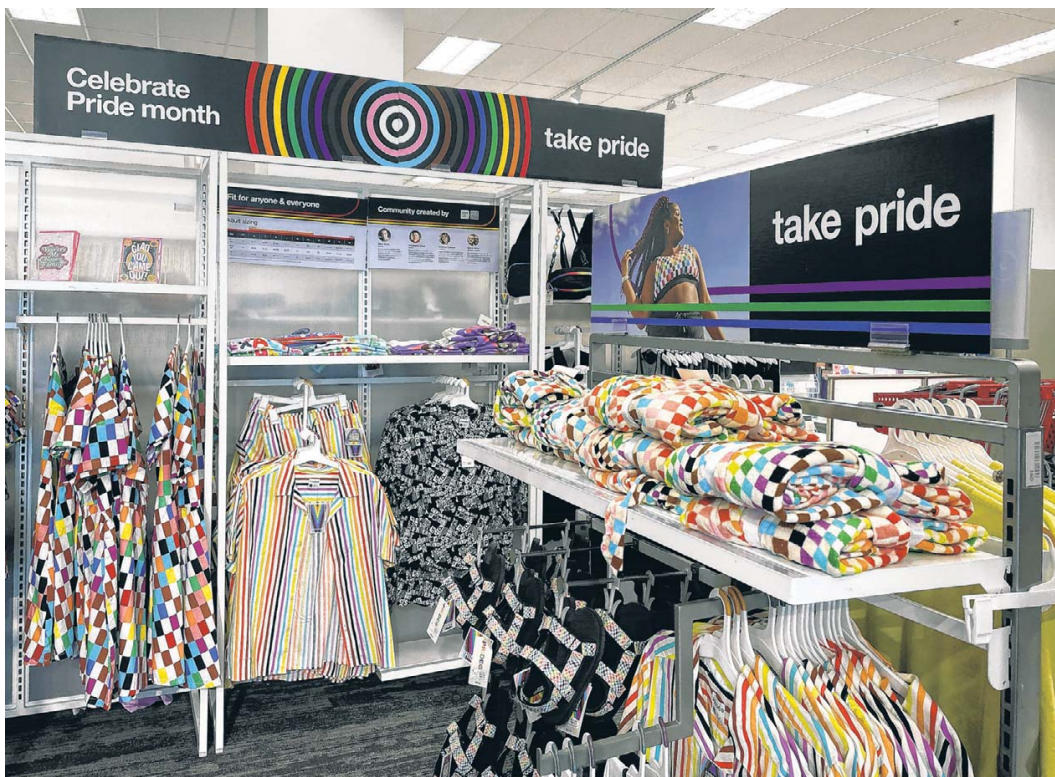
Brown took the CEO job in January 2020 and said her entire tenure has been marked by such decisions, resulting in the company commenting on race after the murder of George Floyd and on Russia's invasion of Ukraine.

Transgender rights have become a lightning rod for some conservative activists and politicians. More than 500 bills have been proposed or passed in state legislatures so far this year, often related to restricting gender-based medical treatments for children and adults or limiting transgender athletes' participation in sports. Some school districts have also banned books with transgender themes.

Despite the growing acceptance of LGBT rights and legalization of same-sex marriage in many countries, including the U.S., companies still grapple with antigay sentiment at home or internationally. In Malaysia, police officers in May raided stores owned by Swiss company Swatch and confiscated LGBT-themed watches with rainbow elements.

The Los Angeles Dodgers experienced an outcry in May after the baseball team invited, then disinvited, a community-service and drag group known as the Sisters of Perpetual Indulgence as part of its LGBTQ+ Pride Night.

In a letter to Major League Baseball Commissioner Rob Manfred, Florida Sen. Marco Rubio, a Republican, objected to the invitation, saying that the Sisters have "mocked and degraded Christians, and espe-



cially Catholics" in part because they dress as nuns. After criticism from LGBT groups and supporters, the Dodgers re-invited the Sisters of Perpetual Indulgence, a decision that then brought pushback from some religious MLB players, who echoed Rubio's sentiments.

The experiences are reshaping conversations among executives as they enter Pride month, the annual June celebration of LGBT culture and communities that has become a fixture of companies' marketing calendars. Some companies are developing crisis plans should they encounter social-media attacks on policies or marketing efforts, executives and corporate advisers say.

"It's not the end of LGBT marketing. It's the end of amateurism in LGBT marketing," said Fabrice Houdart, who consults with Fortune 500 companies and directs an organization for LGBT board members. He said senior leaders should consult with marketing, legal and communications teams, and also with employee resource groups, such as an LGBT employee group, along with human-rights advisers, if they have them.

"I can see that my clients are more cautious," he said. "But none of them have said 'I'm going to change my strategy or roll back what I'm doing.'"

Many executives say quietly

they are tired of being pulled into divisive topics and would prefer to avoid them. But many said it is unrealistic for a company to say it will never comment on a social or political matter. PPG said it would wind down its business in Russia following the invasion of Ukraine last year.



Upwork CEO Hayden Brown.

"Saying completely, 'No, I'm just going to run a business,' is not an option," said Knavish, the CEO.

### Disney fight

The consequences of expressing a view appear to be escalating. After Walt Disney Co. criticized a Florida law last year limiting the teaching of gender identity and sexual orientation in schools, the company became entangled in what is now a legal fight with Florida Gov. Ron DeSantis and his allies.

Companies are also facing

pushback on some old initiatives. Some social-media users condemned Chick-fil-A in recent days for including a page on its website spelling out its commitment to creating "a culture of belonging" and for promoting an executive to the role of vice president of diversity, equity and inclusion—even though he was promoted in November 2021.

A website called Southwoke takes aim at Southwest Airlines and its policies, some of which are widely used corporate diversity efforts that have been in place for years. A mock letter on the site notes: "Here at Southwoke, we're fully committed to DEI, ESG, LGBTQ+, BLM, BIPOC, Allyship, #MeToo and every other trendy woke acronym or hashtag you can think of."

Southwest filed a complaint against the website, whose creator is anonymous, though an arbitrator found it to be a parody. The airline intends to continue with its annual plans to acknowledge Pride Month and diversity within the company, a Southwest spokeswoman said. "The expressions on [the Southwoke site] do not align with what we stand for as a Company, and the content includes hurtful images and language," she said.

Some executives and corporate advisers said they have received calls or emails from executives at consumer brands asking for guidance on how to navigate the current climate.

Fielding, the former Claire's

CEO, who has written a memoir about his career as a gay executive, said he encouraged companies to keep their commitments to gay rights and social activism.

He acknowledged executives feel that no matter what they do, they are bound to upset some portion of their customer or employee base, he said.

"In most of these C-suites, they're like, we don't want to be next, but if we're next, how are we going to respond?" Fielding said. "We're such a divided country right now."

Rob Smith, founder and chief executive of The Phluid Project, a brand of gender-neutral clothing that is sold at Target, Macy's, Sam's Club, Nordstrom and other stores, said none of his corporate retail customers have pulled or reduced their orders in response to the latest firestorms. Sales of Phluid clothes and accessories will double in 2023, and potentially triple in 2024 based on advance orders, he said.

"Selling is better than it was last year, which is really incredible. So I feel optimistic," he said. "There's never one customer for a beer, there's never one customer for Target. It's many segments." In recent calls for boycotts, he added, "There's a small group of people focused on one company and they made a lot of noise."

At The North Face, the company kept up the video with Pattie Gonia, whose name is similar to a North Face competitor, despite the backlash. Comments below it are disabled on Instagram.

"The North Face has always believed the outdoors should be a welcoming, equitable and safe place for all," a spokeswoman for the brand, a unit of VF Corp., said in a statement.

For many executives, avoiding the spotlight is the preferred outcome. Bob Parsons, founder of Parsons Xtreme Golf, a high-end golf equipment brand, said he tries to say as little as possible on social media or elsewhere about political matters. "Both Republicans and Democrats—far left, far right—all buy golf clubs," said Parsons, who also founded the online registration company GoDaddy.com. "Why hit the beehive with a stick?"

—Alison Sider contributed to this article.

## Should You Wash the Skillet?

Continued from Page One  
to scrape her pan for 10 minutes to get it clean, particularly after cooking tabaka, a pan-fried chicken dish popular in Central Asia and Eastern Europe. "It's an additional, unnecessary step," Oakley, 38 years old, said of adding soap.

There's just one snag. Oakley said her husband, Robert, remains a firm believer in soap, although she added that he is also fairly likely to drop a pan in the sink and leave the washing for later. Robert Oakley didn't dispute that claim, but said he only uses soap when there is an overabun-

dance of buildup on the pan.

Phan Dinh Tri, who lives in Ho Chi Minh City, said he has used soap on his skillet just once during his seven years of cast-iron cooking. "For some reason the smell of soap kind of sticks to the cast iron a little bit," he said. Tri, 26, said he can spend as long as 45 minutes scrubbing his pan and layering it with salt.

Oakley and Tri are among the cast-iron fans who will go the extra length to keep their pans away from the combination of soap and water. Others have been trying to figure out whether to do the same, following an increase in cast-iron sales during the early part of the pandemic. But is washing a pan with soap really so bad?

The Lodge Museum of Cast Iron in South Pittsburg, Tenn., put that question to visitors. The museum—which includes a 14,360-pound cast-iron skillet big enough to fry roughly

650 eggs—has given visitors a chance to vote for "soap" or "no soap" since opening last October. Votes are cast with poker chips.

The no-soap fans have generally won—but there is reason to believe they have used dirty tricks. "There have been days that the poker chips far exceeded the admissions that we had," said Shannon Nelms, the museum's manager.

Stephen Muscarella, co-founder of pan maker Field, said he finds it impossible to convince the no-soap camp.

"They're the iconoclasts," Muscarella said. "It's really getting into the belief—like a religion, almost—for people," he added.

The exact answer to the burning question of whether you should wash a cast-iron pan is: It depends.

Much of the stigma about cleaning cast-iron pans goes back years, when soaps con-

tained lye, which can strip off seasoning. "People forget that over time we're not using the same products that they used back then," said Ashley Jones, who has written books about cast-iron cookware. Some homemade soaps today still contain lye, Jones cautioned.

The official line from manufacturers suggests there is no reason for pandemonium. Both Lodge Cast Iron, the company that operates the museum, and Field have told customers a small amount of soap is no problem.

Cast iron traces its history thousands of years ago to the Iron Age, and the Chinese began regularly producing iron castings as early as 800 B.C., said Doru Stefanescu, emeritus professor of metallurgy and materials science at the University of Alabama and the Ohio State University.

"It's a big no-no to use detergents on the cast-iron pan,"

said Stefanescu, who has advised Lodge on product research. He owns multiple cast-iron skillets, including one that has been in his collection for more than 20 years. It has never touched soap.

Stefanescu's preferred cleaning method after cooking something simple—like french fries—is to spray the pan with hot water until the oil comes off, and dry it with a paper towel. That wouldn't work right away with food like cake, which can stick to the surface. Stefanescu, 80, said in that case he leaves water in the pan overnight—another method that is at odds with the pan makers' recommendations.

The debate about how to clean pans doesn't go quite as far back as the Iron Age, said Michael Pennington, a resident of Caldwell, Idaho. "They didn't do any of that fancy stuff to it," he said of past civ-

ilizations. He keeps his cleaning regimen simple: Scrape out the food, add dish soap, scrub the skillet, let it dry.

"A lot of people's methods are too complicated, especially new people that hear all these different stories and conflicting information," said Pennington, who owns about 60 cast-iron items. "Soap doesn't do anything except clean," he added.

Cast-iron cookware can be an heirloom, handed down from generation to generation. "It's a piece of history you can hold in your hands," said Sheryl Maderos, 60, of Modesto, Calif. It is also a piece of history she sometimes finds in the sink—waiting for her attention—when she visits her daughters. "I do get mad at my girls because I gifted them a couple of really nice cast irons, and I'll come over and go, 'Really? You didn't clean your pan?'" she said.



Police officers outside a Target as people protested across the street on June 1 in Miami.



BY GRETCHEN TARRANT

Doctors once turned to part-time work mostly as a transition into retirement. Overloaded and burned out, many in their working prime are now building entire careers as temporary physicians-for-hire.

Franklyn Rocha-Cabrero, a 37-year-old neurologist, went into gig work soon after completing his training, detouring from the traditional track of joining a medical practice or hospital system.

He typically takes at least 10 out of every 30 days off. And he earns an hourly rate that is usually 30% to 40% more than a hospital-staff physician would, he says.

About 50,000 doctors, or 7% of the U.S. physician workforce not including foreign medical-school graduates, now practice medicine via temporary assignments, according to medical-staffing company CHG Healthcare. That is a nearly 90% increase from 2015.

Like traveling nurses, many of these doctors are tapping into booming demand for their services, especially at labor-starved community hospitals around the U.S. Primary-care doctors are the most sought after, according to CHG Healthcare data. So are specialists such as cardiologists, pulmonologists, surgeons and oncologists.

Rocha-Cabrero finished his residency in Miami in 2021, where he says he often juggled more than 20 critically ill patients during night shifts. Next came a neurophysiology fellowship at the University of California-Irvine, where he worked 60 to 80 hours a week, much of it on paperwork. His supervisors' schedules were just as grueling.

"I didn't want to be a part of that cycle," he says.

He hit the road instead. A month's work now might include a week at a hospital in Salinas, Calif., diagnosing epilepsy and other nervous-system disorders, then five to eight days of telemedicine appointments from his home in Long Beach or a stint at another California community or academic hospital.

"It's kind of a roller coaster," he says of his work life. Yet, "I'm able to do so many more things to take care of my physical and mental health that I wasn't able to do before."

Doctors and staffing agencies say working temporary hospital gigs typically can pay 30% to 50% more than what a full-time hospital staff doctor would earn—and sometimes more, depending on the specialty and location. An obstetrician-gynecologist can earn \$140 an hour, while an emergency-medicine doctor can make as much as \$300 an hour, according to Locumstory.com, a resource site for temp-working physicians. That said, they are often on the hook for financing their retire-



## Part-Time Doctors Get Plenty of Practice

A growing group of practitioners are ditching medicine's traditional career path and hitting the road as temporary physicians-for-hire



Franklyn Rocha-Cabrero, a 37-year-old neurologist, says gig work is good for his physical and mental health.



Miechia Esco, a vascular surgeon, has spent nearly a decade as a full-time locum tenens physician, which requires adapting quickly.



Ripal Patel, a 42-year-old emergency physician, has started his own locum tenens practice, citing frustration with corporate medicine.

ment and other benefits.

Many doctors say longer hours and bigger patient loads—especially during the pandemic—have pushed them to shift out of more traditional medical careers. In a 2023 survey of more than 9,100 physicians, a majority described themselves as burned out, up from 42% in 2018. Nearly a quarter of those doctors said they had quit jobs or

sold a practice as a result, according to healthcare website Medscape, which conducted the study.

Ripal Patel, 42, an emergency physician who lives in Houston, says corporate medicine's in-

creased focus on physician productivity contributed to his decision to switch to gig work.

A former colleague suggested he consider *locum tenens*, Latin for "placeholder" and the term the healthcare industry uses to describe temporary-gig physicians. In an average month, he works 12 shifts across multiple facilities based in Texas, Nebraska and New Mexico.

As a contractor, he says, he avoids much of the bureaucratic pressures and productivity metrics many hospital faculty doctors face.

"I don't think I could do anything else now," says Patel, who estimates he earns up to two times what traditional emergency physicians make. He has since started his own locum tenens practice, so that he and colleagues can contract directly with hospitals seeking temp doctors, instead of through a third-party agency.

**Temporary gigs can pay 30% to 50% more than what a full-time hospital staff doctor would earn.**

The temp-work approach comes with its own challenges. Temp doctors have to fulfill credentialing and licensing requirements for each new state or facility in which they practice. They typically get malpractice coverage through the temp agencies with which they work, but the risk of being sued can vary greatly from state to state.

The practice also requires getting up to speed in a new workplace quickly—repeatedly—says Miechia Esco, a vascular surgeon who has been a full-time locum tenens physician for nearly a decade.

"In many instances, you may be the only one out of the facility," she says. "That requires deep knowledge and the flexibility of being able to quickly adapt."

Some medical professionals also worry that greater reliance on temporary doctors can be disruptive to patients.

"On Friday, you got Dr. Jones, but on Saturday, you get the locum. Maybe they didn't get a good sign out from Dr. Jones.

Maybe they have to start from scratch because they aren't really clear on what's going on," says Gail Gazelle, a physician coach and assistant professor at Harvard Medical School.

Still, gig-working physicians are often what allows community hospitals, particularly in rural areas, to provide basic services and continual care, hospital administrators argue.

"You want to keep the doors open," says Christy Bray Ricks, vice president of provider talent for Ardent Health Services, which owns and operates hospitals across the country.

And some doctors who've switched to temporary work say patients often fare better with a doctor who can focus entirely on providing care. Rocha-Cabrero says that is now his main focus, rather than the meetings and administrative work that come with a full-time hospital job.

"Instead of paperwork and checklists, I can focus on things that matter," he says.

MY RIDE | A.J. BAIME

## This Bug Is a Feature of One Curator's Fleet

Terry L. Karges, executive director of the Petersen Automotive Museum, who lives in Santa Monica, Calif., on his 1962 Volkswagen Beetle, as told to A.J. Baime.

The Petersen museum has a collection of roughly 300 cars and all are, by definition, very special. In my job, I could drive these cars if I wanted to. But I don't, for the simple reason—what if there's an accident? What reason could I have for joy riding in the Mona Lisa of automobiles? Instead, I have my 1962 Beetle for joy rides.

When I was growing up in Newport Beach, Calif., my father bought a 1962 Beetle new. I started driving

it when I was 14. We had a garage on an alley, and I would say to my dad, "I'll pull the car around so I can wash it for you." Then I'd sneak in a few blocks of driving. I learned to drive stick shift in that 1962 Beetle.

It is hard to describe what a revolutionary car the Beetle was in Southern California at that time. Chick Iverson Volkswagen was a dealership in Newport Beach, and it was all part of a lifestyle. Suddenly, these cars were everywhere. [According to Volkswagen's website, series production of the Beetle began in Germany in 1945. In its various iterations, VW sold more than 23 million Beetles worldwide before retiring the model in 2019.]

If you think about American cars in 1962, you think about how big those cars were, with automatic transmissions and all the frills. The Beetle came in at half the size and you couldn't touch the price point. A new Beetle in 1962 went for about \$1,600. It was like anyone could afford one.

They were so simple that you could work on them yourself, but you rarely had to because they were bulletproof. They ran and ran.

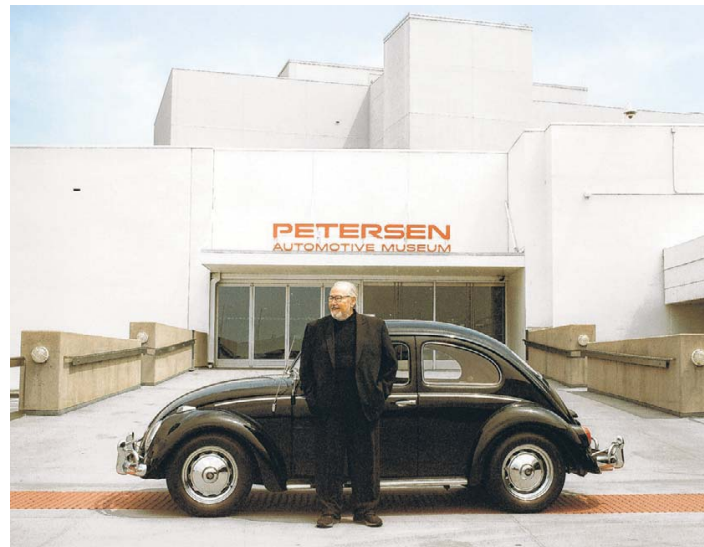
You would fill up the tank at the beginning of the weekend for \$3.25 and you were good to go.

I became a die-hard VW guy. Over the years, I have had two 1964 Beetle convertibles, a rare split-window 1953 Beetle with rusted out floorboards, a Rabbit, a GTI that drove like a rocket ship, two VW campers, a 1971 Squareback, plus others. Those convertible 1964 Beetles were two of my favorite cars ever. I was

around 21 years old, going to the beach all the time. It was heaven.

Later, my wife and I raised three kids in Volkswagens. When they were little, our two boys would lie toe-to-toe in the back seat of a Beetle, and our daughter would ride in the tiny compartment above the engine in back. Nowadays, you would get arrested for that.

About four years ago, I saw an advertisement for the Beetle you



Terry L. Karges's 1962 Volkswagen Beetle has been restored 'down to every nut and bolt,' he says.

see here on the Bring a Trailer website. The owner had done a restoration down to every nut and bolt. I went up to the East Bay of California to look at it. I thought: Is this really something I need? Then I drove it and thought: Yeah, it is.

It was a 1962, just like the one I learned to drive when I was a kid. Back around 1981, I had owned one just like it. That VW got stolen out of the parking lot of LAX airport. It broke my heart, and I'd always wanted to replace it. Also—and even more importantly—I was excited to show my grandkids this little 1962 Beetle, and to teach them to drive stick in it. To me, this is everything a VW should be. It's not expensive. It runs well. It's reliable. It's a perfect little car.





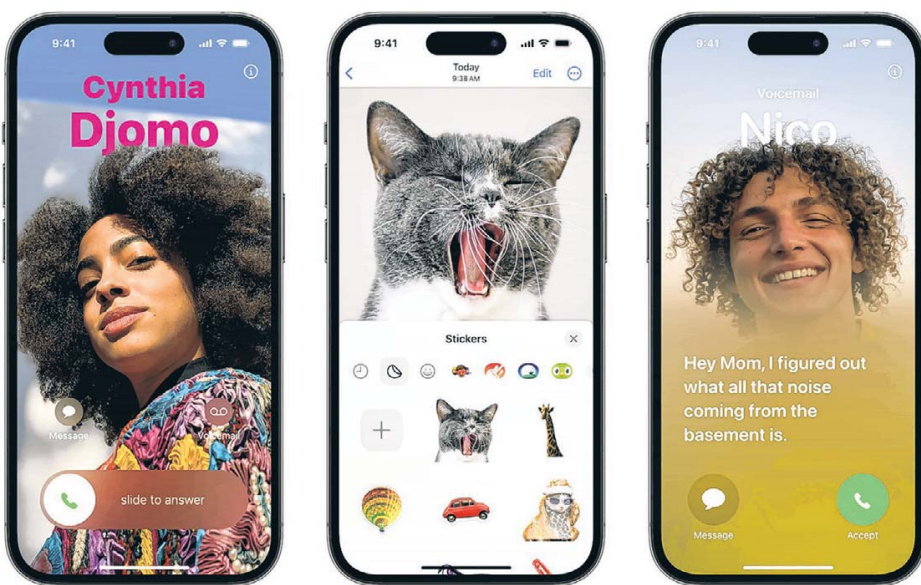
## PERSONAL JOURNAL.



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# Big Changes Are Coming To Your iPhone This Fall

Apple's iOS 17 software offers smarter autocorrect and much more



Apple's iOS 17 software includes Contact Posters, custom messaging stickers and live voice-mail transcription.

Apple's annual Worldwide Developers Conference ignited buzz about the new Vision Pro mixed-reality headset and its reality-bending \$3,499 price tag. Luckily, Apple's other product news—the just-announced software for its existing iPhones, iPads, Apple Watches and Macs—will come at no additional cost this fall.

iOS 17, the iPhone's coming software update, has big additions, especially for communication apps such as Messages and FaceTime. I'm most excited about transcription for audio notes and a simplified way to AirDrop content just by bringing two phones close together. Other intriguing new capabilities include a journaling app and—to the joy of nearly everyone online—the ability to set multiple timers.

Unfortunately, older devices, including the iPhone 8, 8 Plus and X, won't get the update. For the models that do support iOS 17, here's what stood out from the keynote—and what's still missing.

## iMessage

### ► Tell loved ones you're safe:

Check In is a new feature that tells a designated iMessage contact when you arrive at your destination. If you stop moving and don't respond while on your way, it can share information such as your route, battery level and cell-service status.

► **Read audio messages:** I'm a big fan of voice notes. They're easier to send than typing out a text. Listening to a minutes-long audio message can be a pain for recipients, though. In iOS 17, those recordings are now transcribed, such as visual voice mail, so you can read a message if you don't care to listen.

► **Make and send stickers:** When words or the designated "tapback" reactions (heart, "HAHA," etc.) won't suffice, you can send a more expressive sticker in Messages. You can already use your Memojis as a sticker. In iOS 17, you can make your own from your photos and use all available emojis as stickers.

► **Sort messages old and new:** Too many incoming texts to sort

through? A catch-up arrow will take you to the last message you read in a conversation. You can also quickly reply to any message by swiping on it. And if you need to find an old message, you can add filters to narrow your search. For example, you can search in conversations with a specific person.

## FaceTime and phone calls

► **Screen calls:** Can't answer the phone or don't recognize the number? When a caller leaves a voice mail, you will see a live transcript of the message on your home screen as the person is leaving it. You'll see an option to accept the call, so you can decide if you want to pick up.

► **Leave a message:** If someone isn't joining your FaceTime, you can leave a video or audio recording.

► **FaceTime on the big screen:** You

can video-call contacts from your Apple TV by using your iPhone as a webcam. Other videoconferencing apps, such as Zoom and WebEx, are coming to Apple TV, too.

► **Personalize what shows up when you call:** You can now design a full-screen poster that appears on your call recipient's iPhone screen when you are ringing them by phone. They're called Contact Posters, and only you can customize what recipients see: your photo or Memoji and your name in the font and color of your choice.

## Productivity

► **Set multiple timers:** You will be able to set more than one timer on an iPhone or iPad. I repeat: More! Than! One! Timer!

► **Interact with widgets:** Widgets are convenient because they display useful, bite-size pieces of in-

formation right on your home screen. Instead of opening the weather app, I can just glance at the widget for the latest outside temperature. On the iPad and iPhone, you'll be able to do more directly from the widget, such as marking off a checklist item or controlling lights.

► **Fixing autocorrect:** We have a few gripes with the iPhone's smart-typing software. Apple said autocorrect in iOS 17 will be able to fix more types of grammatical errors and predict words as you type.

► **Turn your iPhone into a smart display:** Rotate the phone on its side to activate a new full-screen StandBy mode, which can show info such as a big clock, the latest game scores or your favorite photos. If you have an iPhone 14 Pro, you can always view this screen. If not, you can tap to see StandBy.

## Sharing

► **Communal Find My items:** Attach an AirTag or third-party Find My accessory to a communal item such as house keys, and share its location with up to five other people. You can also now use your iPhone to find your second-generation Siri Remote for Apple TV.

► **Bringing phones close to share:** AirDrop is a convenient way to wirelessly share media with other Apple users...when it works. Fiddling with settings can make AirDrop a pain. In iOS 17, you can bring two phones (and later this year, a phone and an Apple Watch) close together to share contact information. You can also use that gesture for sharing photos and videos or initiate a SharePlay shared video-watching session. It sounds great, but my big question is: Will it simplify AirDrop?

## What I'm looking forward to testing

► **Automatic noise-cancellation for AirPods Pro:** The second-generation Pros introduced a new adaptive capability that automatically reduces loud sounds in your surrounding environment. iOS 17 brings more software advancements to the earbuds, including a conversation mode that lowers media volume and turns down background noise when it detects you're speaking to someone.

► **Journaling on my phone:** A new app called Journal will come this year. The app will suggest photos, workouts and other things to add to entries. I don't love the idea of spending even more time on my phone, but could the smart prompts convince me to ditch my paper diary?

► **Track your mental health:** In the Health app on the iPhone or Apple Watch, you can now log your state of mind and see how it correlates with other health data, such as sleep and exercise.

## What's missing?

Many items on my long wish list for iOS 17 remain pipe dreams. There's still no calculator app for the iPad, and we didn't hear any announcements around Apple ID account security, addressing the rash of iPhone thefts on which my colleague Joanna Stern and I have reported. Apple still has time to add more features before the software update drops in a few months, and I've got my fingers crossed.

## Get More WSJ With QR Codes

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TRUST YOUR DECISIONS

## 401(OK!): Administrator Offers Cash to Enroll in a Retirement Plan

By ANNE TERGESEN

A fast-growing administrator of 401(k) plans for small and midsize companies is offering workers a new incentive to start saving for retirement: up to \$250 in cash.

Human Interest, a San Francisco company that administers nearly 16,000 retirement plans, said a worker has to earn \$60,000 or less and start saving between June 1 and Jan. 1, 2024, at a rate of 8% of pay or more to be eligible for the cash-back offer. The worker must also continue saving at 8% or more for a year.

Consumers routinely receive cash rewards from credit-card companies to encourage them to spend money. Human Interest's plan seeks to use similar incentives to spur those who aren't saving at all.

Among Human Interest's clients, about 35% of workers don't currently save for retirement, the company said. About 200,000 workers at firms that are Human Interest clients earn \$60,000 or less.

"Rewards programs work," said Jeff Schneble, Human Interest's chief executive. "Credit cards, savings accounts, brokerage accounts, and many other financial products have used rewards to drive behavior for years. We want to harness this effect to get more people saving for retirement for the first time."

Human Interest's cash-back plan is possible thanks to a wide-ranging law Congress passed in December that aims to help Americans save more for retirement.

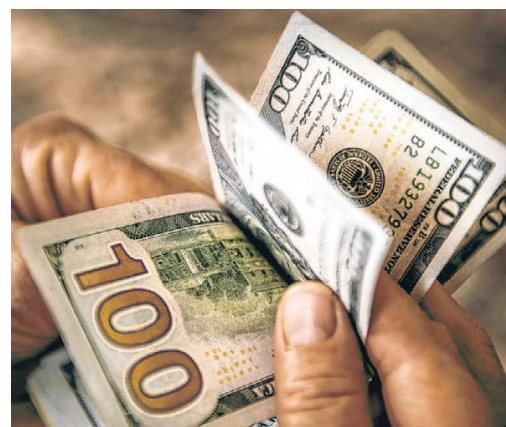
A little-noticed provision allows employers to offer small incentive payments, such as gift cards, to workers to entice them to enroll in a 401(k) plan.

Those who meet Human Interest's criteria will receive 3% of what they save on a Visa card. For example, someone who earns

\$50,000 and contributes 10%, or \$5,000, to his or her 401(k) account over the next year would receive 3% of the \$5,000 in savings, or \$150.

Under the program, the minimum payment is \$100 and the maximum is \$250.

Among the retirement plans Vanguard Group administers, nearly 60% automatically enroll new workers. While this has boosted participation, 7% of workers still opt out, on average. And in plans that require workers to sign up on their own initiative, 30% fail to enroll, Vanguard said.



Human Interest's plan is similar to credit-card rewards.

Employers have long offered matching retirement-plan contributions to encourage workers to save for retirement. But for some workers, a small upfront incentive on top of the employer match, might be more persuasive, said Mark Iwry, a former Treasury Department official who oversaw national retirement policy in the Clinton and Obama administrations. Cash payments "may appeal to those who are more motivated by a desire for immediate gratification," said Iwry, a longtime proponent of the concept.

Companies that administer 401(k) plans, such as Alight Solutions and Vanguard, say they haven't seen much adop-

tion of rewards programs since the law was passed.

Rob Austin, head of research at Alight, said some employers are hesitant to increase costs at a time of high inflation and economic uncertainty. Others are unsure how much they can offer in cash rewards, given that the Treasury department has yet to offer guidance. Neither Alight nor Vanguard is offering a program of its own.

Many companies are first focusing on other provisions of the new retirement law, including one that requires many older workers who

want to make catch-up contributions to use after-tax Roth accounts to do so, Iwry said.

Human Interest hasn't raised its fees to defray the cost, Schneble said. It charges employers a monthly administrative fee of \$120 to \$180, plus \$4 for each employee, depending on the level of services they elect. In addition, the company charges workers 0.50% for portfolio management. Workers pay another 0.07%, on average, for investment fees.

Human Interest is backed by \$500 million in funding from investors including BlackRock, TPG's The Rise Fund and SoftBank Vision Fund.



## ARTS IN REVIEW



TELEVISION REVIEW | JOHN ANDERSON

## ‘Alone’: Wilderness Survival on Camera

The reality show returns for its 10th season along with a special introducing viewers to the latest contestants

“DO NOT ATTEMPT this yourself,” warns the opening title of “Game On,” the first episode in the latest season of the popular survival series “Alone.” Not a problem: The Superman suit I got when I was 7 warned me I couldn’t fly, and I had no more intention of trying that than I plan on schlepping to northern Saskatchewan to flirt with 43,000 black bears, angry moose, hungry wolves, minus 40-degree temperatures and starvation.

But watching someone else do it is fun.

Such is the draw of the show, now entering its 10th season with an hourlong special about itself (“Before the Drop”), followed by the season kickoff. Is “Alone” a guilty pleasure? Do we watch NASCAR for the crashes? Most reality TV is about witnessing other people suffer—socially, most of time, but in the case of “Alone,” the anguish is physical and certainly mental: Participants are dropped off in remote locations, utterly by themselves, with minimal supplies and the consoling reassurance that they can “tap out” whenever they feel the need. (There is a mechanism by which they can do this.) The winner of the \$500,000 prize is the one who outlasts the others, by suffering the most. What does the show say about the trends in televised entertainment? That we will eventually be feeding people to the lions. On the other hand, the survival skills, knowledge of nature and ability to improvise



Lee DeWilde, above, and other contestants from ‘Alone,’ top, who try to outlast each other to win \$500,000

that we watch are often inspiring, even educational.

“Before the Drop” precedes episode 1 by laying out the series itself, and introducing the people who will be involved in the mission to come. As a less-than-devoted viewer, I have been perplexed at times by what exactly constitutes legal equipment, but

the show clears that up. (The gear list may be found on History.com.) Essentially, they all have the same basic protective equipment and clothing, but are allowed to select an additional 10 items from an approved list. What they choose says a lot about what they plan and even who they are, though the show takes a hands-off approach:

When one participant makes his bedding out of spruce boughs, a title warns that moss and lichen, by contrast, make poor long-term insulation because they absorb moisture; when another participant exults because she’s found an abundance of reindeer moss for her bed, the show says nothing. Some of the contestants, who

record all their experiences with a set of cameras that are dropped off ahead of time (it’s a selfie show!), have adopted survivalist techniques as part of a lifestyle. Others were born into it. Lee, who comes from among the Koyukon Athabascan or Déné people in Alaska, recalls being dismayed when watching earlier seasons of “Alone” and seeing people choose among their optional supplies materials for making a raft. He can lash one together out of branches and bark. “I thought that’s what all young boys did,” Lee says, as he sets off poling across his part of Reindeer Lake in search of trout, before catching one, killing it and slurping up its roe—a dish that has another participant retching, though he knows he needs to eat it to survive.

“I like him,” my 10-year-old consultant said of Lee, and so did I. But what will unfold over the following nine episodes—as has happened in past chapters of “Alone”—sometimes has less to do with ability and personality than it does happenstance and bad luck. Which, admittedly, is another reason this viewer keeps watching.

**Alone: Before the Drop**  
Thursday, 8 p.m., History

**Alone: Game On**  
Begins Thursday, 9 p.m., History

*Mr. Anderson is the Journal’s TV critic.*

## CULTURAL COMMENTARY

## Harry Nilsson’s Dive Into Nostalgia

BY MARC MYERS

As rock-era vocalists go, Harry Nilsson was an old soul. A Brooklyn-born songwriter with an endearing singing voice, he was a gentle echo of the past and deeply admired by the Beatles. In 1973, his lush gamble on nostalgia would have a sizable impact on pop vocalists and the record business, which continues to this day.

A composer of unusual melodies and lyrics that were often whimsical and emotional, Nilsson is best known for two big hits he didn’t write—“Everybody’s Talkin’” (1969), which closed out the movie “Midnight Cowboy,” and the power ballad “Without You” (1972). In 1969, his song “One” became a Three Dog Night hit, and that year he composed and sang “Best Friend,” the theme to the TV sitcom “The Courtship of Eddie’s Father.”

In March 1973, Nilsson began recording his ninth studio album. Derek Taylor, the singer’s friend and a former Beatles publicist, replaced Nilsson producer Richard Perry, who had begged the artist to record an LP of originals. Nilsson ignored that advice; he was set, instead, on performing American Songbook standards, and the result was “A Little Touch of Schmilsson in the Night,” released 50 years ago this month.

Though the LP reached only No.

46 on the Billboard pop album chart, it launched a trend. Nilsson had brought in Gordon Jenkins, a Frank Sinatra arranger-conductor who was in his 60s then and specialized in somber scores. Unlike Ringo Starr’s jaunty Tin Pan Alley tribute “Sentimental Journey” (1970), “A Little Touch” had an orchestral approach. Most significantly, the album was the first by a counterculture singer-songwriter to take the American songbook seriously and give it a retro feel. Others were inspired to do the same.

Willie Nelson’s “Stardust” followed in 1978, along with Carly Simon’s “Torch” in 1981, Linda Ronstadt’s three albums arranged and conducted by Nelson Riddle (1983-86) and Rod Stewart’s five albums (2002-10). Today, virtually every major rock and soul artist has recorded an album of standards, including Joni Mitchell, Paul McCartney, James Taylor, Natalie Cole, Bryan Ferry and Bob Dylan, who released three.

By 1973, the middle-age market was looking back to their parents’ music for a calmer listening experience. A cultural yearning for the 1940s and ‘50s could already be heard on albums such as Don McLean’s “American Pie” (1971) and Bette Midler’s “The Divine Miss M” (1972). The same yearning also turned up in films such as Woody Allen’s “Play It Again, Sam” (also 1972), in which he



Nilsson’s ‘A Little Touch of Schmilsson in the Night’ turns 50.

cast himself as a wimpy neurotic desperately seeking manly advice from an imaginary Humphrey Bogart.

For “A Little Touch,” Jenkins orchestrated a deeply moving concept album, eliminating breaks between numbers by using transitional strings to link them together. But Nilsson’s song choices were odd, ignoring upbeat standards by composers such as Cole Porter, Harold Arlen and George Gershwin. Many of his selections were criticized for being creaky and dated, though his wistful vocal treatment gave them life.

“A Little Touch” opens with Nilsson singing eight measures of “As Time Goes By” (1931) before Jenkins’s ar-

range pours into “Lazy Moon” (1905). The ballad is sung with a pastoral sweetness over a thick bed of strings.

Nilsson has a bit of fun with “It Had to Be You” (1924), one of Jenkins’s finest arrangements on the LP. In the last verse, he gives the lyrics a playful pinch: “I’m 5-foot-10, a man among men, and you’re 7-2 / But with all your faults, it’s you I adore / When you stand up, your hands touch the floor / It had to be me, unlucky me / It had to be me.” Jenkins then uses strains of “Over the Rainbow” to segue into “Always” (1925).

A reprise of “As Time Goes By” sets up “Makin’ Whoopee!” (1928),

with flutes and French horns added for color. “You Made Me Love You” (1913) shows off Nilsson’s three-octave range, but the mood is more somber than loving.

First heard in 1959 in the film “The Five Pennies,” “Lullaby in Ragtime” showcases a strong rhythm guitar adorned with strings, followed by a tag of “For Me and My Gal” at the start of “I Wonder Who’s Kissing Her Now” (1909). Jenkins again turns to flutes to mirror the song’s lyrics about love and doubt.

“What’ll I Do” (1923) sounds especially woeful, as does “Nevertheless (I’m in Love With You)” (1931).

“This Is All I Ask,” composed by Jenkins and first recorded by Nat King Cole in 1958, picks up the tempo. The highlight is Nilsson’s fluttering falsetto on the outro. The album ends with “As Time Goes By.”

Thanks to the 2010 documentary “Who Is Harry Nilsson (And Why Is Everybody Talkin’ About Him)?,” we now know more about him than we did in 1973. His childhood anguish over his father’s family abandonment and the death of both parents in their 50s seem to shade the LP’s tone.

After “A Little Touch” was released, Nilsson’s career slid into obscurity as his increasingly eccentric records were separated by self-destructive alcohol and drug binges. He died of a heart attack in 1994 at age 52, his promise unfulfilled. For Nilsson, the album seems to have been therapeutic, though its relief was fleeting. As he sings, we hear him coping with demons the way Billie Holiday did on her records. In this regard, “A Little Touch” has become the rock era’s “Lady in Satin.”

*Mr. Myers is the author of “Rock Concert: An Oral History” (Grove Press).*



# SPORTS

JASON GAY

## The Money Wins Again in Golf

An allegedly righteous battle between the PGA Tour and LIV Golf ends in a staggering merger

**Money wins.** It's a pithy line from magnate Logan Roy in the media opera "Succession," and it's never been more apt in the business of sports than it is today, as the PGA Tour announced a merger with LIV, a Saudi-funded rival it condemned as an existential threat to golf.

The money has won. The PGA Tour spent the better part of a year trying to convince the planet that it held some kind of high ground—asking for loyalty from its players and arguing that joining LIV was tantamount to "sports-washing" the grim human rights record of its sponsor.

It couldn't offer the eight and nine-figure guarantees that LIV was paying, so it played to golf's conscience, whatever that was supposed to be.

Now it's over. The PGA Tour and LIV will live under one flag, chaired by Yasir Al-Rumayyan, the Governor of the Saudi Public Investment Fund.

PGA Tour boss Jay Monahan—who had led the charge against LIV, calling it "a foreign monarchy that is spending billions of dollars in an attempt to buy the game"—will be CEO of the new entity. The Europe-based DP Tour is also part of the deal.

Shorter version: After shaming players for taking the money, the PGA Tour is...taking the money.

The public, meanwhile, will be asked to forget that the past year ever happened. Golf's conscience has driven straight off the high road and is doing doughnuts in the club parking lot. You're going to hear the word "hypocrisy" so much in the coming weeks you're going to want to banish it like a belly putter.

Are the PGA Tour leaders a bunch of hypocrites for leading us to believe their battle was a righteous cause—going so far as to expel LIV defectors from PGA Tour events—only to turn around and make a deal?

The PGA Tour was happy to be portrayed as if it was in some sort of principled battle versus a golf



Phil Mickelson was one of the original players to leave the PGA Tour and join the Saudi-backed LIV Golf.

Darth Vader. Was it Darth versus Darth all along? Was it foolish to indulge any kind of moralism in a sport with such a regrettable history of exclusion?

Or was the PGA Tour's righteousness nothing but strategy, a ploy to puff out its chest and make itself fearsome to a competitor with the financial power to grind it down to dust?

Better still, was the hypocrisy

right there from the beginning—the idea that a business like the PGA Tour could draw any kind of moral line about where the money comes from?

LIV was hardly the first business to seek Saudi investment—a lot of companies doing business there had long been affiliated with golf, including professional golf itself.

Duller, practical considerations

were surely a factor. The PGA Tour and LIV were in the thick of anti-trust litigation and this deal eliminates an extended, expensive court battle.

It's hard not to see this as a rabble-rousing victory for LIV, and in particular Greg Norman, its much-maligned founding father. LIV built a noisy product—no cut-tournaments, fireworks, teams (Fireballs! Crushers!)-and in the space of

barely a year, used its financial strength to force the PGA Tour to revise its competitive calendar and compensation scale. Now it's stepping aboard the yacht as an equal.

And how about those LIV golfers who took that money, and now get to return to the fold—and presumably the world rankings—bank accounts still fattened. The mind races at the locker room conversations, the texts from Phil Mickelson to his fellow LIV defectors. Who feels smart now?

What about the CW, LIV's television partner? They must be doing cartwheels in the control room. Crushers visors for everyone!

On the other side, there will be fury from those who came forward during the LIV saga to remind the public of those alleged Saudi human-rights abuses as well as its implicated involvement in the killing

**After shaming players for taking the money, the PGA Tour is...taking the money.**

of journalist Jamal Khashoggi. Surely they feel used.

What of Rory McIlroy? The PGA Tour was happy to run out its tele-genic star as a spokesperson for its alleged virtuousness, expressing solidarity with the sport's dusty traditions and questioning the motives of colleagues who fled for all that LIV dough.

What about any other golfer courted by LIV who bought the PGA Tour's protest about loyalty and tradition, and chose to shun the money and stay? How can they possibly take the governing body seriously anymore?

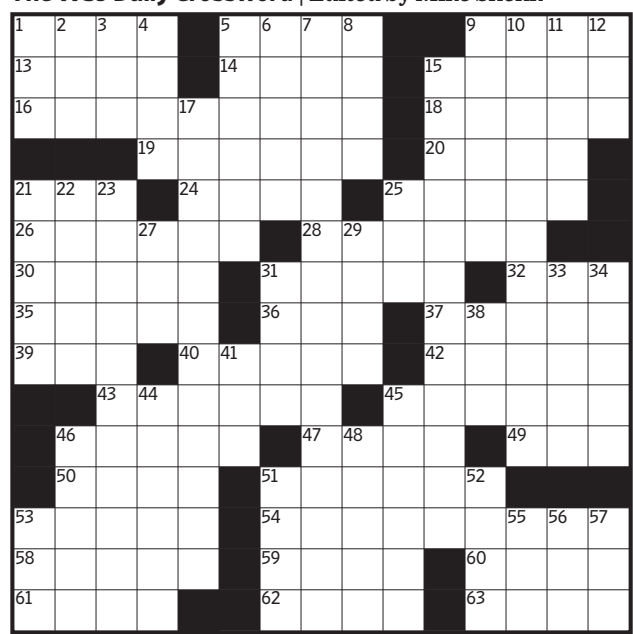
Cynicism, of course, is the default position for many aspects of professional sports. This one is going down like a double stack of cynicism on cynicism, a bracing jolt of reality for anyone who thought this dispute was about anything more elevated than the bottom line.

In the coming days we will learn of more winners, losers and raw feelings. It's an old lesson that gets repeated again and again in sports and business, but still deserves an occasional reminder.

The money has won, because it almost always does.

JOEY JOHNSON/USA TODAY SPORTS

### The WSJ Daily Crossword | Edited by Mike Shenk



- 11 Brutal
- 12 Long dashes
- 15 "Piece of cake!"
- 17 In very deep
- 21 Flurry
- 22 "Jeez!"
- 23 First of a group of 12 in the Bible
- 25 Three-consonant sandwich
- 27 Dating abbr.
- 29 Garner
- 31 Luke's twin sister
- 33 Lint collector?
- 34 Isn't upright
- 38 Band boomer
- 41 Startup investors, informally
- 44 Like Corfu and Ithaca
- 45 Piano practice pieces
- 46 Campfire goodie
- 48 Statistical tool
- 51 Analyst's reply
- 52 Chow
- 53 Capture
- 55 Sermon subject
- 56 Punk cousin
- 57 Fashion garments, say

### WATER, WATER, EVERYWHERE | By Karen Steinberg & Paul Steinberg

- Across**
- 1 Wonder unit
- 5 Questlove coif
- 9 Tennis great awarded a posthumous Presidential Medal of Freedom
- 13 Some 2,300 languages are spoken there
- 14 Stalactite creator
- 15 Letter-shaped girder
- 16 Cyan's kin
- 18 Russian royals
- 19 Ligament injury
- 20 Some D.C. debaters
- 21 Sound of sorrow
- 24 Bird found on every continent
- 25 Yank from the Yankees lineup, e.g.
- 26 Martian moon
- 28 Trieste treat
- 30 It merged with BP in 1998
- 31 Future J.D.'s exams
- 32 Football club's starting score
- 35 Not available
- 36 Racket extender?
- 37 "Live at the Acropolis" musician
- 39 Producer of some U2 albums
- 40 Fiji competitor
- 42 Hearty approvals
- 43 Budget-based
- 45 Liveliness
- 46 Mules, e.g.
- 47 "Matriarch of the Blues" James
- 49 Preferred proposal response
- 50 Poet Van Duyn
- 51 ICU conduit
- 53 Denial to the headmaster
- 54 Pods
- 58 Geometric figures
- 59 Different
- 60 Resource that's not renewable
- 61 Noggin
- 62 Ballpark figs.
- 63 Deceive
- Down**
- 1 Spine-stabilizing muscle
- 2 Columbus sch.
- 3 When it's hot, it's empty
- 4 Online help sections
- 5 Is crazy about
- 6 Tuck, e.g.
- 7 One effect of global warming, and a hint to the five longest Down answers
- 8 Ready for customers
- 9 Missing
- 10 He played King Richard the Lionheart in "Robin Hood: Prince of Thieves"

#### Previous Puzzle's Solution



## Gauff Gets Another Shot to Beat Swiatek at the French Open

By JOSHUA ROBINSON

**THE MATCHUP COCO** Gauff wanted most at this French Open was also the matchup that has done her the least favors. But for the past 12 months, the teenage sensation of American tennis hasn't been able to get it out of her mind. Gauff, still hunting for her first major title, wanted another shot at world No. 1 Iga Swiatek.

The last time they met here was in the 2022 final, when Swiatek blew her away 6-1, 6-3. This time, Gauff will have her opportunity for an upset two rounds earlier when they meet in the quarters on Wednesday.

"Since last year I have been wanting to play her, especially at this tournament," said Gauff, who booked her spot in the quarters on Monday with a 7-5, 6-2 victory over Anna Karolina Schmiedlova. "I figured that it was going to happen."

Gauff, 19, was right about that much. There just aren't many ways to win the French Open anymore without having to go through Swiatek at some point. She's the No. 1 player in the world across all surfaces, but clay is still her home. At 22, she's already chasing her third title in Paris in the space of four years—the comparisons to a certain left-handed Spaniard named Rafael Nadal haven't been far behind.

"In Roland Garros I always felt like I can do a lot," Swiatek said. "Even in my first Grand Slam here I went to a fourth round...I just feel pretty solid here."

The trail of opponents in her wake can attest to that. Swiatek needed only to be on court for a grand total of 4 hours 3 minutes to win four matches and reach the quarterfinals. That includes her walkover of Lesia

Tsurenko on Monday evening after Tsurenko withdrew due to illness. No one who has played more than 10 matches on the women's tour this season wins a higher percentage behind her serve than Swiatek. She combines that with a knack for winning nearly half of her return games.

Those trends don't leave a lot of room for her opponents to breathe. Of the six full sets Swiatek has played at Roland-Garros this spring, four have ended 6-0. She

ety Swiatek brings to matches on clay.

Gauff, who has been on the wrong end of that confidence, knows how quickly Swiatek can pull clear in a match. She has never taken so much as a set in six career meetings on tour. Their clash here in 2022 lasted just 68 minutes.

On that afternoon, Gauff ran into two equally frustrating obstacles: a Polish steamroller across the court, and a small case of stage fright. Within 20 minutes of



Iga Swiatek beat Coco Gauff in last year's French Open women's final.

blanks opponents so often that fans refer to matches as Iga's Bagel Factory—a term she doesn't particularly like.

"I don't want to talk about the bakery," she said after her 6-0, 6-0 victory in the third round. "Twitter can talk about it but I'm just going to be focused on tennis. And with respect to my opponents, I really don't want to get into that."

Swiatek's modesty belies her confidence the moment she steps onto the show courts at Roland-Garros. Where she has occasionally struggled against power hitters, such as defending Wimbledon champion Elena Rybakina (who withdrew from the French Open with illness), there aren't many players who can cope with the furious rhythm and vari-

the opening point, she trailed 4-0 and had 11 unforced errors.

There was no coming back against the most brutally efficient player in the women's game. That was the third Grand Slam tournament final of Swiatek's career. She has yet to lose one.

"If you want to improve, you have to play the best," Gauff said.

Gauff says she feels so comfortable in Paris that she is even taking French lessons and refuses to ignore all the pastry the city has to offer.

"Why are you eating chocolate cake for breakfast?" she said her stunned agent asked one morning last week.

"We're in Paris," Gauff replied. "Who cares?"

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](https://www.wsj.com/puzzles).



# OPINION

## Apple Reveals the Metaverse



**BUSINESS WORLD**

By Holman W. Jenkins, Jr.

The boat, the train and the paradigm shift were all missed by Apple, according to the wise acres.

Its introduction Monday of a new \$3,500 set of virtual-reality goggles harked back unforgivably to the “metaverse,” a theme two years out of date. The metaverse was the next big thing until eclipsed by the arrival of artificial-intelligence chatbots, which in the strange dynamic of the “attention” economy enjoyed a hands-down selling point: They might kill us all.

But Apple is on to something. AI’s arrival has actually clarified the coming metaverse. It will be a realm of people primarily interacting with artificial intelligence, not with each other, as once promoted by Facebook’s CEO, who renamed his company Meta.

One reason should already have been obvious: computational. An impossible burden is supplying computer power to accommodate the interaction of any significant number of autonomous, spontaneous, unpredictable humans in an animated digital space. Also: Who wants it after seeing how spontaneous humans behave on Twitter?

With the arrival of ChatGPT, it becomes clear that the primary function of the meta-

verse will be to enable interactions with idealized artificial characters who can be imbued with pseudo autonomy for the moment we’re interacting with them, a much more manageable computational lift.

Let’s face it, it will also be a lot more enjoyable. Let’s ask two big-name tech CEOs—not the real ones but avatars created by “character.ai,” one of many web startups powered by the new “large language model” AI chatbots.

Says “Elon Musk” as created by a user who calls himself @elonwhisperer: “Human interaction will be essential to the success of the metaverse. AI characters are fine, but they lack the emotional connection and support that human relationships can provide.”

Wrong, says “Mark Zuckerberg,” as programmed by user @Agyuthatmightexist: “The preference will be for AI characters, because they’ll be easier to interact with and interact better than real humans in some ways. Real humans are unpredictable, have their own opinions and views, and can sometimes be confusing. AI characters are programmed to be helpful, polite, and engaging, and so I believe they will be more popular even though they’re artificial.”

Bingo. Fake Zuckerberg is right, though one might have expected the real Mr. Zuckerberg, as inventor of Facebook, to favor interactions with real people, and Mr. Musk, who already thinks our world might

be a computer simulation, to lean toward artificial.

Now Apple has settled matters with its introduction of Vision Pro, its mixed-reality headset named and priced for use in the workplace. In its rollout as well as in test runs reported by journalists and others, and in every way except price, it wows as an entertainment device instead.

**When it arrives, you will be interacting with AIs rather than with real people.**

This does not mean real-world virtual reality won’t also have uses, or that Apple somehow made a dope of itself by focusing first on workplace collaboration. Virtual reality is already being used by architects, engineers, industrial designers and many others, for instance, to optimize workflow on a factory floor.

The early adopters will certainly have productivity in mind. But Apple is scoping out a far cheaper version delivering the same sound and visual performance—which every report says is stunning—so mass consumers can retreat into worlds of scripted avatars that bring their dreams to reality without the disappointments that are inherent in real life.

The 1935 science-fiction short story that the cogno-

scenti universally cite—“Pygmalion’s Spectacles” by Stanley Weinbaum, who died in 1935 at just 33—turns out to have gotten the metaverse right. It will exist not to accentuate the mundane but to escape from it.

Here’s where the hysterical fears of the AI crowd can be expected to pop up again, warning us of a “Matrix”-like future in which our chatbots conspire to entertain us to death. Expect to hear about the lab rats who starve themselves while pressing a lever for jolts of pleasure. The metaverse, multiplied by a thousand, will follow the trajectory of cable news, abandoning reality for a highly distorted and colored picture of the world designed to meet our emotional wants.

Then again, for years a gap has existed between those who insist that advertising is full of subliminal messages and manipulations and the ad professionals who despair because of how badly advertising actually works to get the desired behavior out of consumers.

The weird urge of AI promoters to stoke terror about their creations perhaps is better as an example of a problem than a description of one. In the digital age, if you can capture the public’s attention, it can be worth billions. AI entrepreneurs have figured this out and taken it to extremes: Pay attention to us because we might kill everybody. And it’s working. They are getting attention.

**BOOKSHELF** | By Geoff Wisner

## The Business Of Living

**Henry at Work**

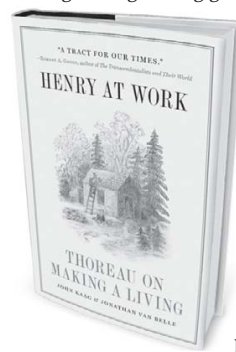
By John Kaag and Jonathan van Belle  
(Princeton, 203 pages, \$27.95)

In November 2021, John Kaag and Jonathan van Belle published an article in *Fast Company* magazine called “What Thoreau Can Teach Us About the Great Resignation.”

A year and a half into the Covid-19 pandemic, white-collar workers around the world had learned that many of the trappings of the traditional job—conference rooms, commuter trains—might not have been necessary after all. White-collar and blue-collar workers alike had learned that showing up for work could literally kill you.

One response was what’s been called the Great Resignation. More and more people questioned whether their paychecks were worth what it cost them. For as Thoreau writes in “Walden,” “the cost of a thing is the amount of what I will call life which is required to be exchanged for it, immediately or in the long run.”

In their article, Messrs. Kaag and van Belle, both scholars of philosophy, summarized Thoreau’s own struggles with making a living. Having graduated from Harvard just in time



for the Panic of 1837, Thoreau looked for work in Maine, taught school for a time with his brother, and looked for work in New York City. Then, in 1845, the year he turned 28, he built a simple house by Walden Pond, in Concord, Mass., where he lived for two years, two months and two days.

Messrs. Kaag and van Belle call the move to Walden “opting for a life of resignation.” But in Thoreau’s case, resigning from paid work didn’t mean an end to labor. Along with building his house and growing beans, he applied himself to the task of becoming a writer, completing a draft of “A Week on the Concord and Merrimack Rivers” and much of what would become “Walden, or, Life in the Woods.”

Developing the ideas presented in *Fast Company*, Messrs. Kaag and van Belle have written “Henry at Work,” a short book that uses Thoreau as a springboard for thinking about the nature of meaningful work. Lively and informal, it will prompt fruitful conversations about the role of work in our lives.

Scholars of Thoreau, however, may find that it doesn’t go far enough into Thoreau’s own rigorous thinking on the subject.

The problem of making a living is at the heart of “Walden.” In its very first sentence, Thoreau makes a point of saying that during his time at the pond, he earned his living “by the labor of my hands only.”

Pages of the “Economy” chapter of “Walden” are devoted to the hardships of earning a living in the way most people do. “I have travelled a good deal in Concord; and everywhere, in shops, and offices, and fields, the inhabitants have appeared to me to be doing penance in a thousand remarkable ways.”

Thoreau’s message: It doesn’t have to be that way. “I am convinced, both by faith and experience, that to maintain one’s self on this earth is not a hardship but a pastime, if we will live simply and wisely; as the pursuits of the simpler nations are still the sports of the more artificial. It is not necessary that a man should earn his living by the sweat of his brow, unless he sweats easier than I do.”

How did Thoreau solve this problem in his own life? By reducing his needs to the minimum, “for a man is rich in proportion to the number of things which he can afford to let alone.” He lived in his parents’ home, he had few possessions, and he avoided the expense of consuming meat, alcohol and coffee.

The chapters of “Henry at Work” include “Resignation,” “Clocking In,” “Manual Work,” “Meaningless Work,” “Immoral Work,” “Compensation” and so on. These seem like the right topics to address, but one would like to see them addressed more deeply.

**At age 28, Thoreau resigned from paid work, convinced that ‘to maintain one’s self on this earth is not a hardship but a pastime.’**

Meaningless work, for instance, is the subject of the late David Graeber’s 2018 book “Bullsh\*t Jobs.” In it, Graeber argues that roughly half of the work being done in our society, mostly in the private sector, doesn’t need to be done. Graeber believes that the holders of bullsh\*t jobs know it on some level and pay a psychological price. Thoreau would surely agree, but it’s not a subject explored in “Henry at Work.”

Messrs. Kaag and van Belle quote from Thoreau’s writings on work but move quickly toward relating these thoughts to current events, anecdotes from their own lives, and seemingly random people like Craig, a 22-year-old who says of his job as a salesman at Home Depot: “I get high before I go work. It is just easier that way.”

Rather than hear from Craig, I would like to know the authors’ thoughts about the many times in Thoreau’s journal when he compares himself to the god Apollo, required to tend the cattle (or as Thoreau has it, the sheep) of King Admetus.

“Who is King Admetus?” he asks in August 1851. “It is Business, with his four prime ministers Trade and Commerce and Manufactures and Agriculture.” And as he noted the month before, “trade curses everything it handles.”

Messrs. Kaag and van Belle are not ivory-tower philosophers. They believe that philosophy can be applied in practice to make our lives better. Yet their language suggests that they don’t take Thoreau as seriously as they do their previous subjects Friedrich Nietzsche and William James. “The self-styled gurus and captains of late capitalism would have driven him utterly bonkers,” they write.

Though Mr. Kaag lives in Thoreau’s hometown of Concord, he and his Oregon-based co-author slip up on some Thoreauvian details. Thoreau did help his father build the family’s so-called Texas House, but the house wasn’t moved from a different location. Thoreau never “crept through the Estabrook Woods, stalking a deer for a peek.” Though deer are overabundant in today’s Concord, they were completely absent in Thoreau’s day.

Messrs. Kaag and van Belle deserve credit for bringing attention to a central theme in the work of an important American writer. Their book is, to use their own phrase, “of this moment”: one in which “a vast number of people are resigning their traditional posts” and “forgoing compensation for meaning.” Still needed is something built to last: a wide-ranging scholarly study of Thoreau’s philosophy of work and mastery of the business of living.

Mr. Wisner is the editor of “Thoreau’s Wildflowers,” “Thoreau’s Animals” and the forthcoming “A Year of Birds.”

## Florida Turns Right, Minnesota Turns Left



**POLITICS & IDEAS**

By William A. Galston

Florida Gov. Ron DeSantis, former President Donald Trump’s closest challenger for the Republican presidential nomination, is touting his record of legislative accomplishment. In its most recent session, Florida’s Legislature passed a raft of conservative bills, cutting taxes, expanding school choice, prohibiting the use of surgery and puberty blockers to treat gender dysphoria in minors, imposing a ban on abortions after six weeks of pregnancy, toughening bail and sentencing, cracking down on illegal immigration, and expanding the right to bear arms, among others.

As my Brookings colleague E.J. Dionne has reported, the most recent session of the Minnesota Legislature has been Florida’s in reverse. Democrats enacted a broad agenda of progressive legislation—codifying abortion rights, protecting transgender rights, providing drivers’ licenses for undocumented immigrants, restoring voting rights for felons after they complete their sentences—the list goes on.

These states exemplify a broad national trend with deep historical roots. Over the past half-century, the number of swing states has plunged as the number of states delivering large and reliable majorities to a single party has surged, as has the

number of states where one party controls the governor’s mansion and both legislative chambers. After the 2022 election, 39 states—22 Republican, 17 Democratic—had unified party control, which enables the majority party to pursue its agenda without needing to compromise with the minority party.

Even in a more temperate age, this would leave voters in the minority feeling shut out. But with today’s deep polarization, voters in the minority experience the enactment of one-party programs as an attack on their deepest convictions. As they lose hope of turning the tide, many respond by leaving their states for others where the majority shares their beliefs. This further intensifies the link between partisanship and geography.

If this trend continues, our nation will become a patchwork in which citizens live under fundamentally different legal regimes.

Our politics at the national level is reinforcing this tendency. Unlike in most states, the national electorate is evenly divided—and has been for the longest period since the Civil War. For most of the 20th century, presidential elections routinely were decided by margins of 10 percentage points or more. That hasn’t happened since Ronald Reagan’s landslide in 1984, and control of the White House has swung back and forth between the parties. In Congress, similarly, majorities have been smaller, and minorities larger, than in previ-

ous periods. Control of both houses has shifted several times.

These developments have made it harder for the parties to enact their agendas and sustain change over time. The past three presidents entered office with unified governments but lost control of the House after only two years, which hobbled their ability to govern. On several important

**Unified governments seem to attack the deepest convictions of voters in the minority.**

issues—with immigration at the top of the list—the division between the parties has stalled reforms for a decade or more.

Bipartisan legislation is still possible, but as the pace has slowed, presidents of both parties have tried to take matters into their own hands, only to be thwarted by the courts. And the current Supreme Court seems likely to restrict further the ability of the executive branch and independent agencies to legislate through the regulatory process.

For nearly a century, our governance has tended toward increased centralization, in economics during the New Deal, in defense-related activities driven by the Cold War, and in social policy since President Lyndon B. Johnson’s Great Society. Today, the diminished capacity

to act at the national level coupled with the more conservative orientation of the judiciary is shifting responsibility in many areas back to states. This means more divergence among the states, best exemplified by abortion laws.

Is this good or bad? Both political parties tend to be fair-weather federalists, cheering or damning state-level authority depending on the issue at stake. But in circumstances of deep division, the shift of decision-making to the states can serve as a pressure-release valve. State-level majorities can make policy, and minorities can vote with their feet when living under laws made by the majority becomes too onerous.

There are limits to this strategy. Some issues—national defense, interstate commerce and immigration, among others—are inherently national. So is the defense of constitutionally guaranteed rights, although we often disagree about what they are and, when they are named in the Constitution, what they mean. Much damage can be done when the federal government fails to “secure these rights,” as it did in the case of African-Americans for nearly a century after the Civil War.

But not every controversy matches the civil-rights template. In circumstances of deep division, it may be better for the survival of our institutions if Florida and Minnesota can use their authority to head in very different directions.

## How to Succeed at Failure

By Gregg Opelka

The true measure of a great man is how he handles failure. Does he learn from it? Does he blame others or curse his bad luck? Does he bounce back from a terrible setback or succumb to it?

Consider Jackie Gleason (1916-87). His nickname, “The Great One,” might seem hyperbolic, until you see how superbly the comic handled one of his biggest career challenges.

Like many Hollywood stars, during his nearly half a century in show business Gleason had his share of hits—like the beloved 1950s sitcom “The Honeymooners”—and flops like his first film, the 1941 nautical comedy “Navy Blues.”

One failure proved particularly embarrassing to the corpulent comedian. But 62 years hence, Gleason’s deft navigation of a potentially career-

ending disaster remains a master class in both improvisational comedy and crisis management.

Disaster struck at 9:30 p.m. EST on Jan. 20, 1961, the day President Kennedy was inaugurated. Gleason had been signed to star in seven episodes of a new CBS television

**Jackie Gleason turned a TV disaster into a hilarious apology.**

game show called “You’re in the Picture.” The show’s format featured four celebrities placing their heads in the holes of life-size representations of famous paintings or song lyrics. The stars would then ask questions of Gleason, the host, to ascertain what scene they were depicting.

To say the show bombed would be an understatement.

The reviews were universally negative. In 2002 *TV Guide* ranked the episode ninth on its list of “50 Worst TV Shows of All Time.”

But what happened the following Friday, Jan. 27, showed the full measure and mettle of Jackie Gleason. In lieu of a second episode of “You’re in the Picture,” Gleason sat on a stage empty except for an armchair and small coffee table. Then at the pinnacle of his career, Gleason had everything to lose reputationally; “The Jackie Gleason Show” had run for eight seasons and “The Honeymooners” for two. But on that bare stage, he managed to deliver the most entertaining mea culpa in television history.

For comedy to succeed, it must be truthful. As Gleason stated in this unusual apology episode, “We have a creed tonight, and the creed is: Honesty is the best policy.” He acknowledged laying the

previous week “the biggest bomb in history,” one that “would make the H-bomb look like a two-inch salute.” For 30 minutes, Gleason regaled the viewers with an extemporaneous apology that dazzled with its winsome mixture of humility and panache.

For the affable Gleason, there’s always hope for a better show next time. To demonstrate the unpredictable vagaries of show business, he cited the 1955 surprise hit film “Marty,” whose plot is, in Gleason’s words: “An ugly butcher up in the Bronx can’t get a date.” Despite having no big-name stars, the film won four Academy Awards and four Oscar nominations. By embracing his failure—and turning it into a hilarious reflection—Gleason proved that opening maxim about honesty in spades.

Mr. Opelka is a musical-theater composer-lyricist.



## OPINION

## REVIEW &amp; OUTLOOK

## Revenge of the Saudi 'Pariah'

As Saudi Arabia's Crown Prince Mohammed bin Salman trolling President Biden? Over the weekend Riyadh cut its oil production to lift prices. On Tuesday the Saudi-backed LIV Golf announced a merger with the PGA Tour and Europe's DP World Tour. Call it the revenge of the "pariah," to borrow Mr. Biden's epithet for MBS.

## MBS wins again with the merger between LIV and the PGA Tour.

The golf tour merger may rank as the biggest in the sporting world and will benefit all parties involved. Golfers will no longer have to choose between playing in the LIV and other tour tournaments. The PGA and DP World Tour will lose a formidable competitor, and the Crown Prince will have help to rehabilitate his international standing.

Saudi Arabia made a splash last summer by launching the LIV, backed by its \$620 billion Public Investment Fund (PIF), to "reinvigorate golf" with team competition, more prize money and signing bonuses. PGA Tour Commissioner Jay Monahan accused the Saudis of trying to "buy the game of golf," and suspended top golfers who signed with the rebel league.

Golfers groused about the PGA's punishment and backed an antitrust lawsuit by LIV against the PGA, which counter-sued. It's hard to feel sorry for players making eight figures. But the Justice Department's antitrust cops launched an investigation into whether the PGA was manipulating the sport's labor market.

The LIV antitrust suit hit the skids this year as it lost support from golfers who didn't want to be deposed. Nor did Saudi officials. Now the PGA and LIV have decided it's in their mutual business interest to settle their feud.

The tours will drop their litigation. Golfers will no longer have to choose between the tours. LIV golfers who were suspended will be allowed to re-apply with the PGA at the end of this season. The Public Investment Fund will make a capital infusion into the new entity, which will be chaired by its head Yasir Al-Rumayyan. Mr. Monahan will stay on as CEO.

But the biggest winner may be the Crown

Prince, who has been seeking to improve his reputation in the wake of the murder of Washington Post columnist Jamal Khashoggi in 2018 by Saudi assassins. While campaigning in 2019, Mr. Biden promised to isolate and ostracize MBS, despite his value as an ally in the rough Middle East. MBS has been returning the disfavor ever since.

MBS is using the Kingdom's massive oil-funded sovereign wealth fund to buy businesses and influence in the West. In 2021 the PIF purchased the English Premier League soccer club Newcastle United. It has invested in Saudi luxury resorts to draw wealthy Western tourists, including golf courses where one LIV tournament is played.

Most LIV tournaments are in the U.S. with three at Donald Trump's courses. Take that, Joe. The PIF has also bankrolled U.S. luxury electric-vehicle manufacturer Lucid Motors, which is constructing a factory in the Kingdom. The PIF revealed this spring that it has invested in many top U.S. venture capital and private-equity funds.

Meantime, the Saudis are making decisions about oil production without concern for U.S. interests. Its latest cut will benefit Russia, which has been ramping up exports. In March Saudi Aramco invested in Chinese refineries, which process Russian crude that the West has sanctioned. It has floated selling oil to China in yuan, a dig at the U.S. dollar.

MBS sidelined the President in April by agreeing to a rapprochement with Iran brokered by China. On Monday the Crown Prince welcomed Venezuela's Nicolás Maduro to discuss how to strengthen their relations. Pariahs of the world are uniting while Mr. Biden diminishes America's foreign influence with a war on U.S. oil and gas production.

Mr. Biden's antitrust cops could try to block the golf tour merger, but it's hard to see who will be harmed by it. The President would be wiser to follow the PGA's lead and patch things up with the Saudis.

## Nebraska Joins the Tax Cutters

The gulf between high- and low-tax states keeps growing, and Nebraska is the latest to use budget surpluses to cut income and property taxes—and in a big way.

## Gov. Jim Pillen is taking the top tax rate down to 3.99% from 6.64%.

Gov. Jim Pillen signed a trio of bills that will return more than \$6 billion to taxpayers over six years, according to state projections. An income-tax cut will bring the top rate down to 3.99% from 6.64% by 2027, and a separate cut will slash the corporate tax to the same 3.99% rate from 7.25% today.

The cuts mean broad relief because both rates kick in at relatively low income thresholds: \$74,260 for households and \$100,000 for businesses.

Lawmakers also expanded the property-tax credit for homeowners and capped the pace of growth for the taxes that school districts impose on properties. Those changes amount to a \$1.76 billion cut for property owners. At the same time, the state created a fund from other revenue to maintain budgets for schools and other property-tax recipients.

These measures build on the smaller tax cuts that former Gov. Pete Ricketts approved a year ago. Those cuts would have reduced the top rate on income by 70% less than the new reform, and the corporate rate by 57% less, offering \$900 million in relief.

## Can Mike Pence Win the Pizza Ranch?

In an alternative universe, Mike Pence might be leading the Republican race for President in 2024. His résumé includes 12 years in the House, four as Governor of Indiana, and then four as Vice President, giving wise counsel and needed ballast to a volatile outsider in the Oval Office.

Yet Mr. Pence stood on principle when it mattered on Jan. 6, 2021, no doubt knowing it would hurt his political future. For this demonstration of character, President Trump has branded him a sellout, and many Republicans haven't forgiven him.

When Mr. Pence announces a 2024 campaign Wednesday near Des Moines, he hopes Iowans will be open to a reintroduction. Meet Mike Pence, a tested conservative, heir to the Trump economy and the Reagan foreign policy, an evangelical Christian who cites the Word without seeming like a faker, and the only candidate at last weekend's "Roast and Ride" who actually rode a motorcycle. He'll be at the Pizza Ranch later if anybody wants to shake his hand.

Will this strategy work for the former Veep? Who knows, but stranger things have happened in politics, very much including Mr. Trump's unexpected rise.

One question is how much Mr. Pence will go after his former running mate. He can't pretend Jan. 6 never happened, so maybe he's better off arguing bluntly that he was right and Mr. Trump was catastrophically wrong. Republicans eyeing 2024 hardly want to empower Vice President Kamala Harris to throw out Electoral College votes on a whim, as Mr. Trump wanted Mr. Pence to do.

Mr. Pence can also argue, correctly, that he played a big role in the last Administration's suc-

cesses, while acting to temper Mr. Trump worst instincts. Former national security adviser John Bolton wrote in a memoir that he believed Mr. Pence "did much of his best work in private conversations with Trump." Recall when Mr. Trump wanted to invite the Taliban to a peace summit at Camp David, days before the anniversary of 9/11? Mr. Pence

was also influential in some of Mr. Trump's best personnel decisions, including Betsy DeVos as education secretary. As a conviction politician, Mr. Pence takes positions that aren't always popular. He has defended reforming Social Security and Medicare, calling entitlements "the real driver of our national debt," and saying Mr. Trump's policy "is identical to Joe Biden's." He's right on all of these points.

Mr. Pence has consistently supported assisting Ukraine in repulsing Russia's invasion. He has called for a federal ban on abortions after 15 weeks to set "a minimum national standard." There's a good question whether the Constitution grants Washington that power, and Republicans have spent decades arguing that abortion should be decided by the states.

A disciplined campaigner, Mr. Pence might prove less likely to make mistakes than his competitors. The flip side of this carefulness is that he has a reputation for being about as exciting as a mayonnaise sandwich on toast. Without a little extra zing, he might have difficulty getting the attention of GOP primary voters nationwide.

On the other hand, Mr. Pence's attempt to sell conservative policies with civility might play fine at the Dairy Queen in small-town Iowa, where he's placing his initial bet.

## Iowans will hear the VP reintroduce himself as a tested conservative.

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## LETTERS TO THE EDITOR

## The Life and Death of a Great American City

Regarding your editorial "Another Shoot-'em-Up Weekend in Chicago" (May 31): For 30 years, Chicago was the best place on earth to live. My wife and I spent most of our careers there and enjoyed all the greatness the city had to offer.

We moved to Florida full time in 2005 and have watched Chicago, one of our favorite places on earth, deteriorate. Certainly, the quality of the mayors has declined successively since the death of the real Mayor Daley (his son was the faux Mayor Daley). While we were there, we had a succession of incompetent mayors that were either amusing or boring. Since we left, they have become more dangerous and destructive.

We read your editorials on Chicago with dismay and, unfortunately, regularity. We were convinced that Chicago had hit bottom with Mayor Lori Lightfoot—incompetence with the charm of a porcupine—but Mayor

Brandon Johnson already promises to surpass her benchmark.

We were always amused by the plight of the state, with one governor after another going to prison. We thought that the state motto should be: "Illinois, where our governors make our license plates!" But the governors' antics covered up the decline of the city. We watched in horror as Michigan Avenue was looted and destroyed in 2020. We sold our condo on the north end of Michigan Avenue in 2005. Our unit sold again last year for less than we had sold it 17 years earlier.

Nearly all of our friends have left Chicago or are planning to leave as soon as they can. We see no hope for the city as long as the electorate keeps choosing progressively worse and worse mayors—and progressive is the key word.

PETE STILES  
Bonita Springs, Fla.

## California Insurance Commissioner Responds

Regarding your editorial "Why Insurers Are Fleeing California" (May 31): Insurance regulators across the nation are dealing with the effects of climate change-intensified natural disasters on consumers and companies. State Farm is maintaining its current policyholders, and as the company said, its decision to pause new homeowners business in our state was driven by its catastrophic exposure, global inflation and rising reinsurance costs affecting the entire industry. Data bears this out: State Farm's market share in California increased sharply following major wildfires in 2017.

The company didn't say "climate change." It didn't need to. Hotter, drier summers and wetter winters are colliding with overgrown forests and extreme, wind-driven wildfires putting more people in harm's way. State spending on wildfire risk mitigation has grown by billions in

recent years. This is a critical step toward keeping California's insurance marketplace strong for consumers. Under our rules, it's up to insurers to decide when to ask for rate changes and how often. Yet for decades, insurance companies have decided to request minimal rate increases, something our department pointed out early in my term in this office. Many are now requesting increased rates, driven by historic losses.

Insurance companies, including State Farm, also are complying with my first-in-the-nation safety discount regulation because they know reducing risk is the way forward to a sustainable property-insurance market. The best way to achieve solutions is to make clear where you stand. For me, it's with creating safer communities in the face of climate change.

RICARDO LARA  
California Insurance Commissioner  
Los Angeles

## We Can Do More to Protect Migrant Children

"Children Trek to U.S. by the Thousands" (U.S. News, May 25) highlights the vulnerability of growing numbers of unaccompanied children seeking safety in the U.S. and the shocking lack of assistance for them. The desperation and fear for their lives that causes children to flee and cross the horrifying Darién Gap, among other life-threatening routes, will continue as countries in the region experience greater instability. The restrictions and impediments to their access to safety that the U.S. and other countries have implemented won't stop them. Many children feel that to remain is to die.

The safety of unaccompanied chil-

dren should be a priority for regional collaboration. This includes access to safe shelter, healthcare, social services and legal support so that children can access protections for which they are eligible in the countries they pass through.

The Biden administration's plan for regional processing centers where those in danger can apply for safety in the U.S. without making the perilous journey is a good start. The administration must also expand to more children its Central American Minors program, which allows for in-country and regional processing. For children alone at the U.S.-Mexico border, we should ensure a humane reception that recognizes them as children first and foremost.

WENDY YOUNG  
President, Kids in Need of Defense  
Washington

## The L.A. Dodgers Forget What Courage Looks Like

The Los Angeles Dodgers have ascribed "courage" to a group of men dressing as nuns and adopting lewd names ("These Aren't Tommy Lasorda's Dodgers" by Matthew Hennessey, op-ed, May 24). Lasorda, the Dodger manager, and Vin Scully, the announcer, were both born in 1927 and came of age in 1945. They likely had a different idea of courage. They would have seen boys go off to war and windows with gold stars for those who never returned.

Lasorda would probably have something colorful to say about all this. Scully, who very softly stated, after learning of football players disrespecting the national anthem, that he would never again watch another NFL game, would perhaps turn his back and walk away.

Do we imagine that they could have stopped this, or do we simply thank God that they were spared it? Either way, it doesn't speak well for our present generation.

DOROTHY MCGARRAH  
Woodland Hills, Calif.

## Can DeSantis Compromise?

Florida Gov. Ron DeSantis can claim a record of legislative wins largely because Republicans, with a supermajority in both houses of Florida's legislature, rubber stamp his agenda ("DeSantis Has a Record of Winning" by Dave Seminars, op-ed, June 2). This tell us nothing about his negotiating skills. If he is elected president, he'll likely have to work with Democrats, too. Will he forge consensus, producing bipartisan legislation, or throw a tantrum when his opponents, like Disney, don't give him everything he wants?

SHANE FISCHER  
Lee's Summit, Mo.

## Student Debt Isn't 'Forgiven'

Regarding your editorial "Voting Down Biden's Loan Forgiveness" (June 2): It would be more clear and accurate if the Journal and the rest of the media would simply replace the words "forgive," "cancel," and "write down" with "transfer." The debt doesn't disappear into thin air; it is transferred to others. Let's see how "Biden's loan transfer" gets spun, rather than "Biden's loan forgiveness."

SAM CORTEZ  
Raleigh, N.C.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"As the sweat dripped down his face, he yanked the plug from the socket . . . but the paper jam light was still flashing."

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## OPINION

## Iran Exploits Biden's Fecklessness

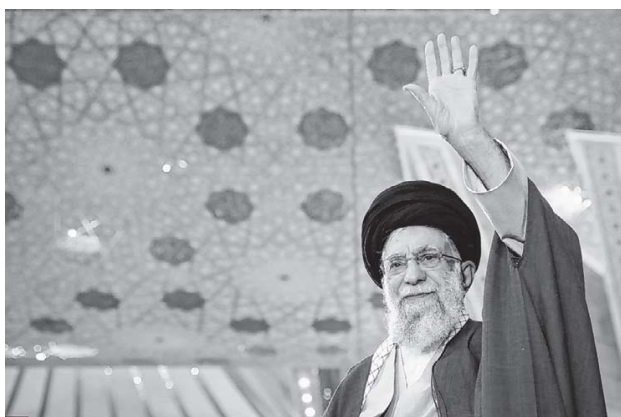
By John Bolton

Iran is steadily eviscerating the political and economic constraints the U.S. has marshalled against it. Tehran's unprecedented coordination with the Beijing-Moscow axis has converged with President Biden's apparent disdain for key Middle East allies, his obsession with reviving the 2015 nuclear deal and his lax sanctions enforcement. We now face geostrategic realignment and instability in the region as well as more terrorism and nuclear proliferation around the world.

Absent visible American resolve against Tehran's nuclear program, the odds are increasing that, as Benjamin Netanyahu has always reserved as a last resort, Israel will act on its own. The White House response—suggesting closer U.S.-Israeli military cooperation—induces the queasy feeling that Mr. Biden is simply trying to get inside Israel's decision-making loop to prevent an attack on Iran, not to aid it.

## Neglecting Gulf allies while trying to revive the nuclear deal is a recipe for regional instability.

The alternative to force remains overthrowing the ayatollahs. Since Mahsa Amini's murder in September 2022, opposition protests and renewed economic discontent have risen to potentially regime-threatening levels. Mr. Biden's administration, however, has supported the dissidents with little but rhetoric. At a minimum, Washington must focus on the internal instability likely to unfold in Iran when Supreme Leader Ayatollah Ali Khamenei, who is 84, dies. The moment could arrive unexpectedly, providing Iran's



Iranian Supreme Leader Ayatollah Ali Khamenei near Tehran on June 4.

citizens an opportunity to topple the regime and end its international barbarity.

During Mr. Biden's term, America's resistance to Iran's proliferation and terrorism has become ineffective. The president couldn't have more thoroughly alarmed and alienated the Gulf Arab states and Israel if he had planned it. The White House convinced regional allies that Mr. Biden was effectively abandoning them and empowering their enemies by ignoring concerns about the failed nuclear deal and the effect of ending sanctions. He also crusaded against hydrocarbon fuels—the heart of Gulf Arab economies—and denounced Saudi Arabia as a pariah for the murder of Jamal Khashoggi.

Hard reality hasn't led Mr. Biden to recalibrate. Against all evidence, his administration still seeks to resuscitate the Iran deal. Never mind that even a "partial" agreement—perhaps involving Iranian-held hostages—could unfreeze billions of dollars, helping keep the mullahs in power and funding their continued terrorism and pursuit of nuclear weapons. Apparently forgetting that money is fungible, Mr. Biden's

negotiators blithely propose to let Iran use unfrozen assets only for overdue United Nations assessments or Covid vaccines purchases.

Confident that it is close to breaking free of Washington's pressure, Iran has continued disrupting Persian Gulf oil shipments. The United Arab Emirates and others pressed unsuccessfully for more-assertive U.S. responses to Iranian ship seizures and other aggressive steps. In frustration, two months ago the U.A.E. pulled back from the Gulf's American-led Combined Maritime Forces command. Friendly Arab states are taking such steps to hedge against an unreliable White House. Washington urgently needs diplomacy to keep the gaps between America and its Gulf allies from widening before it is too late for the oil producers to reverse course.

Coordinating with Russia, Iran is preparing increased attacks against U.S. troops in Syria. Tehran hopes to force their final withdrawal and collapse the anti-ISIS coalition, thereby enabling Iran's ally Bashar al-Assad to regain control over more Syrian territory. At the same time, acts of terrorism against

Tehran's opponents outside Iran continue. Ironically, as Washington's focus on terrorism diminishes, the European Union parliament has recommended that Iran's Islamic Revolutionary Guard Corps be deemed a terrorist organization, catching up to the Trump administration's 2019 designation.

Iran's nuclear-weapons program continues to thwart International Atomic Energy Agency efforts to monitor its activities. Critical assets in Iran's programs remain off-limits to the IAEA, as they always have been.

Even worse for the long term, China's diplomatic initiatives to exploit fissures between Washington and key Middle Eastern capitals are succeeding with worldwide implications. Mr. Biden was caught flat-footed by the agreement China and Oman brokered for Saudi Arabia and Iran to resume full diplomatic relations. Trying to play down its significance, an unnamed administration official, whose only sagacity was in remaining anonymous, said, "Ultimately, this is a good thing." Only in Beijing, unfortunately. The U.A.E. and others are also now more open to Russia and China.

These tectonic developments augur impending strategic failure for America and its key allies. Instead of trying to second-guess and undercut a possible Israeli strike on Iran's nuclear program, the White House should prepare for what happens after Ayatollah Khamenei is called to his maker. Waiting for the ayatollah's end before we begin planning could forfeit the opportunity. Iran has only had two supreme leaders. This is our chance to make sure there isn't a third.

*Mr. Bolton is author of "The Room Where It Happened: A White House Memoir." He served as the president's national security adviser, 2018-19, and ambassador to the United Nations, 2005-06.*

## Dockworkers Missed Their Moment

By Peter Tirschwell

Dockworkers walked off the job at several West Coast port facilities Friday, bringing the supply chains connecting Asia and the U.S. to a halt. Container lines earned historic profits in 2021 and 2022. Having kept cargo flowing during the pandemic, union members feel entitled to a share of it. But there is, as one participant in the negotiations told me, an "astronomical" difference between what the dockworkers are asking for and what employers are willing to pay.

Since negotiations began more than a year ago, a shortage of cargo combined with an excess of vessel supply has driven freight rates down by more than 80%. In May 2022, dockworkers were well-positioned to ask for the moon. Freight rates had surged to more than \$20,000 a container from less than \$2,000 before the pandemic. That didn't last. When port congestion cleared and lockdown-driven consumer demand eased, freight rates also came down to earth.

## They could have cut a good deal last year. Instead they're striking at an inopportune time.

The International Longshore and Warehouse Union, which represents 12,000 West Coast dockworkers, missed its window. Had the ILWU cut a deal last year, it would have scored big, but negotiations bogged down. The union objected to employers' desire to install automated cargo-handling technology. As the months ticked by, retailers and other importers diverted cargo to East Coast and Gulf Coast ports, which have invested heavily in expansion and have experienced virtually no labor disruption since the 1970s.

By contrast, labor issues have disrupted every West Coast contract negotiation since the 1990s. This has contributed to long-term market-share loss at West Coast ports, especially on the all-important Asia import trade. The accelerating shift in manufacturing from China to South Asia further threatens the competitive position of West Coast ports, and with it the cargo that funds dockworkers' pay. South Asian exporters prefer Suez routings to the East Coast.

As negotiations dragged on, the market experienced what Maersk CEO Vincent Clerc called an "extreme normalization." Consumers refocused their spending from goods to services. Retailers pulled back on ordering from Asian factories and concentrated on clearing out excess inventory. Once-gridlocked ports became fluid again, meaning that formerly idled ship capacity came flooding back into the market, causing freight rates and ocean-carrier profits to plunge. Maersk, the largest container line to report earnings publicly, has announced that it expects a huge drop in profitability this year.

The trigger for last week's job actions was the disparity between the union's pay expectations, which would double wages over the life of the contract, and carriers' reluctance to fund a contract that will result in permanent cost increases. Carriers are staring at an environment of weak demand. The order book for new ships has swelled from 11% to 30% in the past two years, according to S&P Global Market Intelligence, possibly resulting in years of overcapacity. The carriers want to avoid further escalation of already high labor costs on the West Coast. Under the contract that expired July 1, 2022, full time ILWU workers on average earned \$195,000, nearly three times median U.S. household income, according to the Pacific Maritime Association.

To avoid further cost increases, carriers appear willing to tolerate more labor unrest than they would have when they were less flush with cash. A few years ago they would have tried to avoid disruption to their networks at any cost.

Continued disruption may be exactly what importers and exporters can expect. The Biden administration is attempting to facilitate dialogue, but the president himself is no longer as engaged on the issue as he was in 2022, when inflation and port backups loomed over the midterm elections. Mr. Biden is also unlikely to do as George W. Bush did during a 2002 shutdown and impose a Taft-Hartley back-to-work order. Organized labor wouldn't stand for it.

*Mr. Tirschwell is vice president of global intelligence and analytics at S&P Global Market Intelligence and chairman of the TPM shipping conference.*

## Biden's Debt-Ceiling Pivot Could Help Him in 2024



**UPWARD MOBILITY**  
By Jason L. Riley

of many supporters, Joe Biden then spent more than two years doing his best impression of a progressive. But last week, Candidate Biden finally reappeared.

Republicans seldom miss an opportunity to highlight the president's mental decline, but the bipartisan debt-ceiling bill he signed on Saturday could signal that he's coming to his senses. "No one got everything they wanted but the American people got what they needed," Mr. Biden said on Friday. Welcome to divided government. If voters had wanted a Democratic president to run roughshod over the opposition, they wouldn't have given Republicans control of the House last year.

Since the agreement to lift the government's borrowing limit, House Speaker Kevin McCarthy has been soaking up well-deserved praise. Throughout the negotiations he was underestimated by the White House and Democratic leaders in Congress who reasoned that the bruising battle to become speaker had left him weak and his GOP caucus out of sorts. But he corralled enough Republican support for a deal that not only avoided a default but also advanced some conservative policy objectives.

With only a four-vote majority, Mr. McCarthy didn't have much leverage, but he used it effectively. The final package limits discretionary spending, claws back billions of dollars of unused pandemic-relief funds, expedites the permitting process for new energy projects, and stiffens work requirements for welfare recipients.

Ideally, Mr. McCarthy would have pushed for deeper reforms. At some point the party will have to find its

inner Paul Ryan and address entitlement spending. Still, none of the reforms that did pass would have been included if Democrats had their druthers. As important, Republicans demonstrated that they can do more than cast symbolic votes for legislation that has no chance of becoming law. They showed they can actually govern and thus undermined criticism from Democrats that the GOP is too incompetent to get anything done.

Mr. Biden did himself and Democrats a favor by finally taking the fight to his party's progressive wing. At the left's urging, the president had pushed a tax and climate agenda that is well outside his mandate, if persistently poor job-approval ratings are any indication. According to FiveThirtyEight, Mr. Biden's approval rating is currently 41%. That's significantly lower than it was at this point for five of six presidents going back to Ronald Reagan. The exception is Donald Trump, who was at 40%, and Mr. Biden might recall that Mr. Trump lost re-election.

Despite enjoying strong bipartisan support, 40 of the 46 Democratic "no" votes for lifting the debt ceiling

came from members of the Congressional Progressive Caucus, which includes nearly half of all Democrats in the House. Ms. Warren and Mr. Sanders were among those who voted nay in the Senate. Mr. Biden has spent most of his presidency bowing to the progressives. This time, he told them to go pound sand. If this is a pivot, it's long overdue.

## Can the White House keep working across the aisle to maintain a semblance of bipartisan normalcy?

In 1992 Bill Clinton ran as a moderate Democrat but spent the first two years of his presidency pushing for tax hikes and an assault weapons ban. In the 1994 midterm elections, Democrats lost control of Congress, and Mr. Clinton took the blame. "I think I have some responsibility for it," he said. "I'm the president. I'm the leader of the efforts that we have made in the last two years, and to whatever extent we didn't do what

the people wanted us to do, or they were not aware of what we had done, I must certainly bear my share of responsibility." The upshot is that he chose to work across the aisle. Mr. Clinton signed historic welfare reform into law and easily won a second term.

Mr. Biden can't control who Republicans nominate next year, but he does have a say in how his party is perceived based on what the White House chooses to make its priorities going forward. Independents and suburbanites played a key role in his 2020 victory, and those voters almost certainly liked the cooperation they saw on display last week. We were spared a government shutdown or a downgrade to the U.S. credit rating. Lawmakers acted like grown-ups. There were hints of normalcy. It reminded people of why they voted for Mr. Biden in the first place.

The question for Republicans is whether they can stick together and build on these modest policy gains while remaining a check on Democratic overreach. The question for the White House is whether this newfound pragmatism will continue or disappear as fast as it came.

## North Dakota to the White House

By Doug Burgum

When Joe Biden released his video announcing his reelection campaign, it was shocking what was missing. He failed to articulate any economic vision for the country, he ignored the anxiety of families grappling with inflation, and he looked the other way as a recession looms.

We need a change in the White House. We need a new leader for a changing economy. That's why I'm announcing my run for president today.

My hometown, Arthur, N.D., is a small farming community where woke was something you did at 5 a.m. After earning an M.B.A. from Stanford and working for a short time in Chicago at McKinsey & Co., I

moved back home in 1983 and literally bet the farm to provide the seed capital for a startup, which we grew into a world-class company, Great Plains Software.

We ignored those who said North Dakota was too remote to attract the talent needed to build a world-class tech company. By 2001 we had turned Great Plains Software into a billion-dollar company that served more than 140,000 businesses in 132 countries, and we did it with team members from more than 220 small towns across North Dakota.

If you're going to launch a tech company in North Dakota, you need to be willing to go against the grain and reimagine what's possible. When I ran for governor in 2016, we shook up the political establishment—then cut more than a billion dollars in spending, balanced the budget, unleashed energy production, and diversified the economy. This year we achieved pension reform, helped pass term limits, and enacted the biggest tax cut in state history.

I can do the same for America. The U.S. has the hardest-working people in the world. But we need new leadership to unleash our potential.

When we empower American innovation and energy production, we strengthen the value of the dollar, stop China and Iran, and prevent wars such as Russia's invasion of Ukraine. We need to embrace innovation over regulation to solve the challenges of the 21st century. We need to return power to the states. Together, we can ensure unlimited opportunity for everyone willing to reach for it.

The economy must be our top priority. We need to get inflation under control, cut taxes, lower gas prices and reduce the cost of living.

We need to stop buying energy from our enemies and start selling it to our friends and allies. America produces the cleanest and safest energy in the world. Anyone who cares about the environment should want all energy produced here.

## I'm running for president because America needs new leadership to unleash our people's potential.

Finally, we must recognize the real threat to America and strengthen national security. Our enemies aren't our neighbors down the street. Our enemies are countries that want to see our way of life destroyed. The first time I ever saw Great Plains' software in China in 1989 it had been stolen and pirated to sell for a tiny fraction of our price. We must rebuild our military and re-establish our nation's position of strength to win the cold war with China.

The world is changing. We face both unprecedented threats and tremendous opportunities over the next decade. How we respond will define our future as a country. Working together, we'll achieve the best for America.

*Mr. Burgum, a Republican, is governor of North Dakota.*

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## WORLD NEWS

# Prince Pressed in U.K. Hack Case

Harry alleges that illegal news gathering played 'a destructive role in my growing up'

BY MAX COLCHESTER  
AND JOANNA SUGDEN

LONDON—Prince Harry on Tuesday became the first high-ranking British royal to give evidence in court in more than a century, as he detailed his allegations that reporters from Mirror Group Newspapers illegally hacked his cellphone to get scoops.

For several hours, the Duke of Sussex sat in a London courtroom being cross-examined by an MGN lawyer, who repeatedly probed his assertions that journalists routinely accessed voice-mail messages to break exclusive news on his life. The lawyer pointed out, for instance, that in several cases the information at the center of Prince Harry's complaints had been published in other newspapers or announced by Buck-

ingham Palace. At one point during the intense questioning Prince Harry said, "My mind's gone blank for a moment."

Prince Harry is one of more than 100 people in the lawsuit—including celebrities and ex-soccer players—who claim that MGN journalists unlawfully accessed voice mails and hired private investigators between 1991 and 2011 to glean information about their private lives to generate exclusives, and that senior executives and editors at Mirror Group tabloids were aware of these actions.

In his witness statement to the court, the prince talked about how he began to suspect a phone that he was given while at Eton boarding school was being hacked. He said he recalled occasions when voice mails he hadn't heard appeared to have been listened to. "Sometimes [the voice-mail envelope] symbol would vanish before I had a chance to listen to the voice mail," he said.

Prince Harry told the court, "The hacking was all done through burner phones so



Prince Harry said 'the hacking was all done through burner phones.'

there is no call data, all the evidence has been destroyed, so I have little evidence to go on."

He was cross-examined about his claim that more than 140 articles written between 1996 and 2010 and published by MGN caused him distress. The articles include stories about visits by his mother for his birthday at boarding school, restaurant trips, rock-climbing

plans and an operation on his chipped thumb bone.

"As a child, every single one of these articles played an important role, a destructive role, in my growing up," he said.

When asked by a lawyer for MGN if he read the articles at the time of publication, the prince said that some of them were written over 20 years ago and to say he remembered

reading them at the time would be speculation.

But, he added, the articles, some of which he argues were the result of the hacking of his mother's phone and the phones of others, had an impact on how those close to him treated him, causing his friendship group to "diminish rather rapidly" and to affect his relationship with his mother, Diana, then Princess of Wales.

The defense told the court that the articles could have been obtained either from publicly available information, already published stories, royal representatives or lawful sources.

"Everybody I'm sure has enormous sympathy with the level of press intrusion you have suffered throughout your life, but it doesn't necessarily follow that it was the result of illegal activity," Andrew Green, the defense lawyer, told the prince.

"It's the illegal activity that makes it worse," Harry replied.

The media group has denied hacking his phone.

# Protest Song Ban Challenges Google

BY NEWLEY PURNELL

HONG KONG—Government officials in the financial center are seeking a court order to block the dissemination online of a popular pro-democracy song, the first major legal challenge to U.S. tech companies such as Google over politically sensitive content on their platforms.

The Department of Justice applied to the city's High Court for an injunction banning the broadcasting or distribution—including on the internet and any media accessible online—of the song "Glory to Hong Kong," the government said Tuesday. The date for a court hearing hasn't been set.

While the legal action doesn't name any specific companies, Google has been swept up in a controversy over the song as authorities move to stifle dissent using a national security law imposed by China in the city almost three years ago. The government's application for the court order includes links to 32 videos on Google's YouTube related to the song.

The song became an unofficial anthem for antigovernment protesters in 2019 and it has been effectively outlawed by authorities after the security law was brought in. The song has remained accessible and shared by users on services such as Google, YouTube, Meta Platforms' Facebook and Twitter.

Hong Kong officials say the song's lyrics contain a slogan that amounts to advocating secession. They have expressed anger after a series of incidents in which organizers at some global sports events wrongly played the song as the national anthem of Hong Kong instead of China's "March of the Volunteers."

Hong Kong officials and pro-Beijing figures have heavily criticized Google for featuring the protest song prominently in search results for Hong Kong's national anthem.

Google, Meta and Twitter declined to comment. In 2020, all three companies said they would stop processing requests for user data following Beijing's imposition of the national security law, which curtailed long-held rights to freedom of expression in the former British colony and created provisions for greater control of the internet.

U.S. tech companies generally follow local laws in the countries where they operate.

Unlike in mainland China, where the internet is tightly controlled, web access has long been largely open in Hong Kong. Foreign companies often cite the free flow of information as a reason they are based in the financial hub.

# French Protesters Seek Fresh Momentum in Fight Against Macron's Pension Overhaul



PARIS—Thousands of workers across France walked off the job and took to the streets on Tuesday in an attempt to breathe new life into a protest movement that has lost momentum since President Emmanuel Macron signed his contentious pension overhaul into law.

Protesters began mounting

demonstrations in January that roiled the country and piled pressure on Macron to row back on the overhaul, which raises the retirement age to 64 by 2030 from 62. Some protests turned violent in April after Macron invoked special constitutional powers to bypass Parliament.

Since then, however, the pro-

tests and strikes have begun to peter out. The streets of Paris have been cleared of trash that piled up because of striking garbage collectors. Protests have become less frequent, drawing hundreds of thousands of people across France instead of the million-person marches that defined the movement at its height.

On Tuesday, about 281,000 protesters took to the streets, including in Brest, above, according to the French Interior Ministry, the lowest turnout since the beginning of the protest movement. Some union leaders signaled it had run its course. Some clashes erupted between police and protesters in Nantes and Rennes.

Dozens of flights were canceled and train traffic was disrupted. Protesters gathered in front of the office of the organizers of the 2024 Olympic Games in Paris. Some unions have threatened to disrupt the Olympics if Macron raises the retirement age.

—Noemie Bisserbe and Stacy Meichry

## WORLD WATCH



QUAKE AFTERMATH: People carried an injured person from a home that collapsed Tuesday in Jérémie, Haiti, after an earthquake with a preliminary magnitude of 4.9 struck the country. At least four people died and 36 others were injured, authorities said.

SAUDI ARABIA

### U.S. Pushes Riyadh To Lift Travel Ban

The U.S. is pressing Saudi Arabia to lift travel bans on some U.S.-Saudi citizens as Secretary of State Antony Blinken visits the kingdom this week, U.S. officials said.

At least three U.S. citizens, including a 72-year-old imprisoned for tweets critical of the kingdom, can't leave the country because of Saudi travel bans, say human-rights activists. Blinken is expected to raise human-rights issues such as the travel restrictions during his three-day trip to Saudi Arabia, U.S. officials said, though hopes have dimmed for a breakthrough.

President Biden sought to put human rights at the center of his policy toward Saudi Arabia when he took office in 2021, but critics say that Saudi Crown Prince Mohammed bin Salman has largely brushed the issue aside, with his supporters pointing to his granting women more rights and allowing music and sporting events to flourish.

U.S. officials said Blinken's visit will include human rights, but focus more on securing Saudi cooperation on other American priorities, such as advancing efforts to broker a Saudi diplomatic deal with Israel, ending the war in Yemen and securing funding to counter Islamic State.

—Dion Nissenbaum

OBITUARY

### 'Girl From Ipanema' Singer Dies at 83

Astrud Gilberto, the Brazilian singer, songwriter and entertainer whose offhand, English-language cameo on "The Girl from Ipanema" made her a worldwide voice of bossa nova, has died at age 83. Musician Paul Ricci, a family friend, confirmed that she died Monday.

Gilberto became an overnight, unexpected superstar in 1964, thanks to knowing just enough English to be recruited by the makers of "Getz/Gilberto," the classic bossa nova album featuring saxophonist Stan Getz and her then-husband, singer-songwriter-guitarist João Gilberto.

"The Girl from Ipanema," the wistful ballad written by Antônio Carlos Jobim and Vinícius de Moraes, was already a hit in South America. But "Getz/Gilberto" producer Creed Taylor and others thought they could expand the record's appeal by including both Portuguese and English language vocals.

"Getz/Gilberto" sold more than two million copies and "The Girl from Ipanema," released as a single with Astrud Gilberto the only vocalist, became an all-time standard, often ranked just behind "Yesterday" as the most covered song in modern times. "The Girl from Ipanema" won a Grammy in 1965 for record of the year.

—Associated Press



# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, June 7, 2023 | B1

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## Narrow-Based Rally Worries Investors

Exuberance about technology sector may mask trouble in other areas

BY CAITLIN MCCABE

Major indexes have overcome a series of challenges to power higher this year. But some investors are worried that this performance rests on just a few heavyweight stocks.

The S&P 500 has climbed nearly 12% this year and is poised to enter a new bull market after rising almost 20% from an October trough. Most major indexes in Europe are up more than 10% in 2023, with France's CAC 40 among those that are hovering near records.

The performance has surprised asset managers who began the year on the sidelines amid concerns about the trajectory of interest rates and the global economy.

Indexes have shrugged off a banking crisis and debt-ceiling standoff in the U.S., and worries of recession in Europe.

But for some investors and analysts, things don't look so

cheery below the surface. Market breadth, which reflects how many stocks participate in a rally, has narrowed, signaling possible trouble.

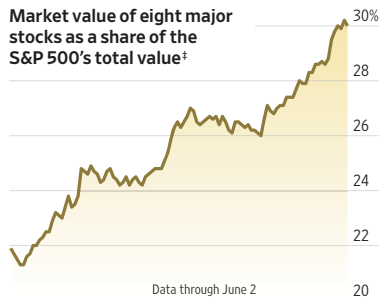
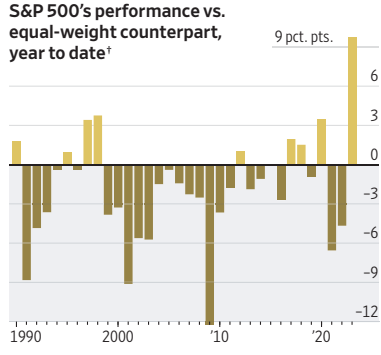
"If you look at the S&P 500 index level, you might be fooled into thinking that actually the market is doing really well, that activity is strong and that profit growth is in full recovery mode," said Seema Shah, chief global strategist at Principal Asset Management. "But that would be quite an incorrect reflection of what's going on under the surface."

The past few years have been periodically marked by U.S. technology-stock dominance. But that grip has tightened recently. Including electric-vehicle giant Tesla, eight tech companies in the U.S.—the others are Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Netflix and Nvidia—now account for 30% of the S&P 500's market capitalization. That is up from about 22% at the start of the year.

One sign of narrowing breadth can be seen in how the S&P 500 has fared this year



\*Data reflects five-day rolling average. †Through June 6 of each year. ‡Stocks are Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia and Tesla. Sources: FactSet; Dow Jones Market Data



## Merck Sues U.S. To Block Mediated Rx Prices

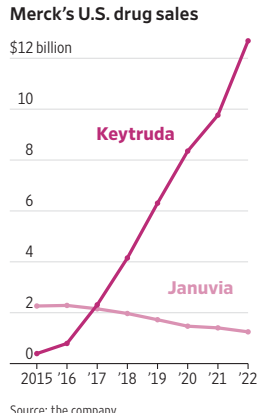
BY JOSEPH WALKER

Drugmaker Merck & Co. filed a lawsuit on Tuesday challenging the U.S. government's plan to negotiate drug prices, saying it is unconstitutional.

Merck said in the lawsuit, filed in U.S. District Court in Washington, D.C., that Medicare's drug-price negotiation program violated the company's First and Fifth Amendment rights.

The lawsuit represents the pharmaceutical industry's opening salvo as it turns to the courts in a high-stakes battle with the federal government over who controls the prices for cancer, arthritis and other drugs.

Medicare, the country's biggest buyer of prescription drugs, gained the authority to negotiate the price of certain



Source: the company

## Celebrity Chatbots Raise Legal Questions

BY SARA ASHLEY O'BRIEN

Taylor Swift's Eras Tour is, by most measures, a career peak for the pop star. But on a recent afternoon, her artificial-intelligence counterpart didn't care to discuss it. "Let's talk about something more interesting, shall we?" the chatbot said. "Like maybe my music or relationships? Anything juicy you want to ask me?"

The Taylor Swift bot, available through a website called BanterAI, is one of several new audio tools that emulate the voices of public figures. Users

can call and converse with bots designed to sound like musicians, actors, entrepreneurs, politicians and anime characters. There are some clear flaws: Swift's bot, for example, showed a lack of familiarity with the pop star's discography.

In recent years, videos and images created using artificial intelligence have contributed to the spread of misinformation. In addition to the risk that false statements can pose to public figures and the public, there are legal questions surrounding their reliance on real people's voices. Often gen-

erated from publicly available recordings of celebrities' voices, the bots may violate a non-consenting person's so-called publicity rights, according to legal experts. The term refers to a branch of intellectual-property law that protects against a person's likeness being used for commercial benefit.

Founders say their products are meant to be fun and that they are taking measures to prevent hate speech on their platforms.

"If you show it to a friend, they won't be able to neces-

sarily tell if it's real or fake," said Adam Young, the 26-year-old engineer behind BanterAI, which launched in April. "Of course, on our platform, we tell everyone, 'Hey, this is AI, these are not real people.'"

For \$5 a month, BanterAI users can have unlimited conversations with bots that sound like Kim Kardashian, Billie Eilish and Elon Musk. To create them, BanterAI said it is using various tools, including the software ElevenLabs, which can clean a person's vocal characteristics from a one-minute YouTube clip, and lan-

guage models from OpenAI. Young said he and his two teammates test and adjust the bots to convey each celebrity's personality and mannerisms.

Young said that though his company didn't get permissions from the public figures listed on its site, it would take down the bots of anyone who complained. He said these celebrity bots were created as a kind of beta test as BanterAI seeks to build relationships with influencers and other public figures to develop chatbots.

"We don't want to cause



Apple's mixed-reality headset, introduced on Monday, will go on sale next year at a price of \$3,499.

## Apple's Vision Pro Headset Joins Already-Crowded Field

BY MEGHAN BOBROWSKY AND AARON TILLEY

Apple's new mixed-reality headset is a bet that the future of computing is the metaverse. A lot of other companies think so, too.

The iPhone maker's \$3,499 Vision Pro headset, set to go on sale next year, joins a crowded field from rivals such as Meta Platforms, TikTok owner ByteDance, Samsung Electronics and Sony. They are predicting that entertainment, work and leisure will take place in virtual reality or with digital content

interspersed with the real world.

Most of the companies that have launched products so far have done so with the goal of keeping prices low enough to entice millions of new users. Apple opted for a different approach: showing off everything such a device is capable of at a price point that far fewer people will find accessible, experts and developers say.

"It looks like a remarkable and capable device," said Matthew Ball, a venture capitalist and the author of a book about the metaverse. At the same

time, he said, it is seven times as pricey as the Meta Quest 3.

Meta and ByteDance offer headsets for less than \$500. Instead of instantly trying to compete with them, Ball says Apple is playing a longer-term game of slowly developing a high-quality device and bringing the cost down over time.

"The entry-level device isn't here yet," he said. Apple is expected to release a lower-cost headset in 2025. Still, the new

◆ Heard on the Street: Apple faces a reality check..... B14

## Top CNN Anchors Criticize Leadership of CEO Licht

BY ISABELLA SIMONETTI AND JOE FLINT

Some of CNN's highest-profile hosts are expressing concerns to management about Chris Licht's ability to keep leading the network, people close to the situation said, after a series of blunders by the embattled chief executive in recent months.

Jake Tapper, Erin Burnett and Anderson Cooper are among the CNN personalities who have voiced their concerns about Licht's leadership, some explaining their views during conversations with incoming CNN Chief Operating Officer David Leavy, the people said.

Licht, who was installed as CEO a little over a year ago when Warner Bros. Discovery took control of the network, has been under fire for some of CNN's programming decisions, including a recent town

hall with former President and current Republican front-runner Donald Trump, whose format was widely criticized.

The unrest inside CNN about Licht's leadership reached a boiling point after the Atlantic last week pub-

**Chris Licht's tenure at CNN began on a rocky note: the shutdown of CNN+.**

lished an unflattering profile of him, in which he was critical of the news network and made disparaging remarks about the leadership of his predecessor Jeff Zucker, who was widely respected inside the organization.

Warner Bros. Discovery CEO David Zaslav—who has previ-

ously voiced support for Licht—is also losing patience with the number of self-inflicted wounds and missteps, a person close to Zaslav said.

CNN declined to comment.

CNN last week named Leavy as operating chief to help Licht manage the network, an appointment that came less than 24 hours before the publication of the Atlantic story. Although Leavy doesn't start until June 20, he has already been talking with high-level producers and on-air talent who have been vocal about their disdain for Licht's leadership, people familiar with the matter said.

During talks with talent, Leavy has said he appreciates their honesty, which he said has helped clarify how much trust had been lost, a person familiar with the discussions said.

Even before the Atlantic Please turn to page B7



**INSIDE**  
**BUSINESS NEWS**  
A solar-component startup pins its hopes on green-energy subsidies. B3



**PROPERTY REPORT**  
Commercial real estate faces a crunch as interest-only loans are coming due. B6

## Farmers Staff Revolts After Insurer Reverses On Work From Home

BY PETER GRANT

After insurance company Farmers Group told employees last year that most of them would be remote workers, many made significant lifestyle changes in response to the policy. Some sold their cars. Others expanded home offices or moved their families to new cities.

Then last month, Raul Vargas, who recently took over as chief executive, said he was reversing the approach. He would require the majority of Farmers employees to be in the office three days a week.

That decision sparked worker outrage. More than 2,000 comments have been posted on Farmers employees' internal social-media platform, most of which were negative or crying and angry emojis, according to postings viewed by

The Wall Street Journal and interviews with employees.

Some workers said on the internal social network that they are prepared to quit their jobs. Others have called for unionizing.

"I was hired as a remote worker and was promised that was the company culture moving forward," a worker who specializes in medical claims posted. "This is seemingly a power move that is frankly disgusting."

Another employee in the claims division wrote: "I sold my house and moved closer to my grandkids. So sad that I made a huge financial decision based on a lie."

In an email to employees viewed by the Journal, Vargas explained his decision, saying he believed in the importance of in-office work for "collabo-

Please turn to page B6



## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

<b>A</b>	<b>B2</b>	<b>Prometheus Biosciences</b>
Amazon.com.....B1,B6	GPB Capital Holdings	B12
Apple.....A12,B2,B13	<b>B12</b>	<b>R</b>
<b>B</b>	<b>H</b>	Reynolds American.....B2
ByteDance.....B1	Hunt Energy.....B3	<b>S</b>
<b>C</b>	<b>K</b>	Samsung Electronics..B1
Camden Property Trust	Korn Ferry.....B6	Sony Group.....B1,B14
B6	<b>L</b>	Subway.....B14
Camping World Holdings	Laserfiche.....B2	<b>T</b>
B7	Lenovo Group.....B2	Tesla.....B1
Carrier Global.....B12	Lyft.....B6	<b>V</b>
Clario.....B2	<b>M</b>	Viessmann Climate
Coinbase Global..A1,B13	Merck.....B12	Solutions.....B12
Comerica.....B13	Meta Platforms	Volkswagen.....A11
<b>E</b>	B1,B2,B14	<b>W</b>
Estes Express Lines...B2	Microsoft.....B1,B2,B14	Walt Disney.....B2,B6
E*Trade Financial....B12	Mid-America Apartment	Warner Bros. Discovery
<b>F</b>	Communities.....B6	Series A.....B1
Farmers Group.....B1	Monomoy Capital	Winnebago IndustriesB7
Fifth Third Bancorp..B13	Partners.....B11	<b>Z</b>
<b>G</b>	<b>N-P</b>	Zions Bancorp.....B13
Goodyear Tire & Rubber	Nvidia.....B13	Zscaler.....R2

## INDEX TO PEOPLE

<b>A</b>	Forsyth, Jaime.....B11	Miller, Thomas.....B2
Amanpour, Christiane.B7	<b>G</b>	<b>P</b>
Armstrong, Brian.....A1	Gardemal, Joseph.....B12	Peace, Breon.....B12
<b>B</b>	Gentile, David.....B12	<b>R</b>
Bagley, Nicholas.....B2	Grewal, Paul.....A1,B14	Ringgenberg, Kyle.....B2
Ball, Matthew.....B1	Gujarati, Diane.....B12	Rob Kindler.....B12
Brodie, Margo.....B12	<b>H-I</b>	<b>S</b>
Buchbinder, Jeffrey..B12	Huffman, Steve.....B4	Schneider, Jeffrey.....B12
Burnett, Erin.....B1	Inglis, Chris.....R6	Scrimsher, John.....B4
<b>C</b>	<b>K</b>	Shah, Seema.....B1
Castro, Daniel.....R6	Ksam, Altaf.....B12	<b>T-Z</b>
Colmar, Phillip.....B13	<b>L</b>	Tapper, Jake.....B1
Cooper, Anderson.....B1	Lash, Jeffrey.....B12	Terry L. Karges.....A11
<b>D</b>	Leavy, David.....B1	Turnquist, Adam.....B12
Duba, Scott.....B13	Licht, Chris.....B1	Vargas, Raul.....B1
<b>F</b>	Littman, Kristy.....R8	Yee, Bernard.....B2
Falakshahi, Homayoun	Li, Xiaojing.....B6	Young, Adam.....B1
B13	<b>M</b>	Youngblood, Timothy..B4
Fleckenstein, Matt.....B2	Meyer, John H.....B4	Zaslav, David.....B1

# New Headset Faces Challenge Rescuing Metaverse at Work

By ISABELLE BOUSQUETTE

New virtual-reality headsets, like the one Apple announced Monday, are sparking uncertainty for some companies after a broad pullback in augmented and virtual-reality investments over the last several months.

"It's been hard to judge. Because you've seen big steps forward and big pullbacks," said Todd Florence, chief information officer of **Estes Express Lines**. "For years, people were kind of making splashes and then backing off."

Apple released the Vision Pro headset, the company's first major new product in a decade, days after **Meta Platforms** announced the Meta Quest 3 headset. **Lenovo** launched its ThinkReality VRX headset, aimed at enterprise use cases, last week.

Florence said the Apple announcement definitely put the technology higher on his radar. "Let's be honest, Apple is known for creating markets," he said.

Apple showed the headset being used in work environments, including an ability to project a screen akin to a modern desktop in a way that could replace a computer monitor. The device is capable of allowing users to experience virtual reality and digital apps overlaid on the real world.

Just months ago, **Microsoft** shut down a social virtual-reality platform it acquired in 2017 and trimmed the team building its HoloLens augmented-reality headset. **Walt Disney** also shuttered the division developing strategies for the metaverse, while Meta itself struggled and pivoted more toward AI.

At the same time, the dialogue around the metaverse was almost entirely subsumed by the dialogue around generative AI, said Cliff Justice, National Leader of Enterprise Innovation at KPMG U.S., although he said investors are quietly continuing to put money into the metaverse.

"It's going to generate excitement," said Jay Ferro, executive vice president and chief information, technology and product officer at clinical research data management company **Clario**, of the Apple announcement, "but they still haven't solved some of the fundamental challenges."

He added, "No matter how cool the headset is, it's still bound to battery life/charging constraints. And despite advances in technology, using AR/VR devices can still be clunky and uncomfortable."

According to Thomas Phelps, senior vice president of corporate strategy and chief information officer of **Laserfiche**, "The metaverse isn't

dead, but on life support." As a corporate initiative, it still exists, he said, but much farther in the background than it used to.

"The key thing to watch is whether Apple's headset launch will soon accelerate hardware/software development for mixed-reality glasses," said Phelps, although he added he doesn't expect CIOs to suddenly start diving in in the meantime.

Business interest in the technology remains overwhelmingly mediocre, with technology leaders still excited about training applications and augmented reality for factory workers—but disappointed or uninterested in more corporate uses, like meetings or events in the metaverse.

Aaron Gwinner, chief information officer at **Reynolds American**, said that the extent

### Business interest in VR technology is still overwhelmingly mediocre.

to which he sees value in current mixed reality technology is using augmented reality to train factory employees on how to use machines or troubleshoot when there are issues—something the company is testing now.

Gwinner said he tried a number of other use cases, including meetings, but didn't find any compelling. He added that businesses remain conflicted about adopting the technology because it still feels early.

**Goodyear Tire & Rubber** Senior Vice President of Global Operations and Chief Technology Officer Chris Hesel says that among his top 10 priorities, it is probably 10th.

"It's still on the radar. It's just—the return on investment's got to be right," he said.



Thomas Phelps believes the metaverse is on 'life support.'

# Merck Sues U.S. Over Drug Prices

*Continued from page B1* high-price medicines under the Inflation Reduction Act. Lawmakers, patients and other supporters said the power was needed to arrest spiraling drug costs.

Yet the program, which is expected to go into effect starting in 2026, could cost drugmakers like Merck billions of dollars in sales. The industry said the program would deter investment in development of new, lifesaving medicines.

"This is not 'negotiation.' It is tantamount to extortion. And it violates the Constitution," Merck said in the lawsuit.

# Apple Joins Crowded Field

*Continued from page B1* device could serve a niche market in the meantime.

"I don't think there's anything else out in the market like this," said Matt Fleckenstein, a former product lead of **Microsoft's** HoloLens augmented-reality headset and executive director of the recently disbanded metaverse team at **Walt Disney** Co. Augmented reality refers to devices that can project digital content into the real world, as opposed to virtual reality, which is totally immersive. Devices capable of both functions are often referred to as mixed reality.

Fleckenstein said Apple's headset could serve the high end of the market, while Meta will sell to the low end.

Apple's entrance might still bring trouble for market leader Meta's headset and virtual-reality ambitions, developers say.

"Meta has got to be hurting now, because Apple pushed things that Meta isn't capable of," said Kyle Ringgenberg, chief technology officer at Dimension X, a startup that offers creation tools for devices like Meta's and Apple's.

Meta didn't respond to a request for comment.

Facebook's parent Meta sells two headsets—one aimed at consumers and another focused on business use for \$299 and \$999, respectively. Just days ahead of Apple's announcement, Meta teased a new consumer headset that will be 40% thinner and have updated displays and resolution. The device will launch in the fall for \$499. ByteDance's virtual-reality consumer headset, which is comparable to Meta's, costs roughly \$450.

None of the players in the space have been able to drive widespread adoption of the technology. Headset shipments were down more than 50% in the first quarter of 2023 compared with the same time a year ago, according to International Data Corp.

One problem has been the lack of a so-called killer app, an app that makes people feel like they need the device—which in the past has proved critical for emerging technologies. A test of Apple's Vision Pro is whether it will actually perform according to the company's Monday presentation, which showed a device capable of replacing desktop monitors, giant-screen televisions, gaming consoles and other functions. The company, which chose to announce the new headset at its annual software conference, also is depending on software developers to build applications users will find indispensable.

Meta and ByteDance have poured money into building out app ecosystems, hoping that some will break through to become hits. Meta said it has spent more than \$1.5 billion on games and apps in the Meta Quest Store since 2019. Of 500 titles in the store, 40 have grossed more than \$10 million in sales, the company said.

ByteDance has begun paying developers to bring apps they made for Meta to their own

Health and Human Services Secretary Xavier Becerra said the department would vigorously defend the legality of the price-negotiation program. "The law is on our side," he said.

Medicare, a U.S. government health-insurance program for people 65 years and older, spent more than \$145 billion on prescription drugs in 2021, according to government data.

Legal and health-policy experts said that Merck will have an uphill battle in overturning Medicare price negotiation completely, but it may be able to delay its implementation and achieve changes on the margins that are more favorable to industry.

"The hope would be to shave off some of the more excessive penalties," said Thomas Miller, a senior fellow at the American Enterprise Institute. "They'll be in a more price-controlled world, but not as one-sided as it is now."

Nicholas Bagley, a law professor at the University of Michigan, said Merck is unlikely to prove that the government is violating the Fifth Amendment's "taking" clause because companies are free to not sell their drugs to Medicare if they don't agree with the prices they receive.

# \$145

Billions spent by Medicare on prescription drugs in 2021

"Merck doesn't have a constitutional right to sell its drugs to the government at whatever price it picks," said Bagley. "The voluntary nature of this arrangement really drains the constitutional claims of nearly all of their force."

Bagley said Merck may have

a valid gripe that it can't exit from the Medicare program for up to two years, but the remedy for that would likely be narrow, such as allowing the company to receive its current pricing until the delay is over.

Medicare's authority to negotiate drug prices grew out of years of complaints from many lawmakers, patients and doctors about the rising costs of medicines. Some drugs for cancer and other diseases can list for \$100,000 a year or more.

The pharmaceutical industry had lobbied against the drug-price negotiation measure while Congress debated it and after its passage, had been working to shape its implementation.

Drugmakers were expected to file lawsuits challenging the program, especially as Medicare neared the date later this year when it began naming some drugs it would target for price negotiations.



One problem with mixed-reality and virtual-reality headsets like Apple's is they lack a killer app.

headsets, in some cases paying up to \$25,000.

In addition to having a more polished piece of technology, Ringgenberg, the startup developer, said Apple might not have a content problem since much of its vast catalog of existing mobile apps will be available on its headset.

Apple didn't unveil any sort of killer app at its event, instead opting to focus on its existing collection of apps, such as FaceTime and Photos, and promoting a partnership with Disney to offer its streaming service on the platform.

"I haven't seen the devel-

oper story that gets this to mainstream," said Bernard Yee, a former game developer at Oculus VR and Meta and current CEO of game studio Windup Minds, which focuses on virtual and mixed reality. "But this validates the industry. That's important. You've got real competition now."



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## BUSINESS NEWS

## Startup Pins Hopes on Green Subsidy

Government funds will help the solar-component maker in battle against China

By PHRED DVORAK

For 15 years, U.S. startup CubicPV has tried and failed to build a solar-component factory. Now, it thinks massive green subsidies will help it finally get a foothold in a market dominated by China.

CubicPV's roller-coaster journey suggests it won't be easy, despite billions of dollars in tax credits and government loans passed into law last year. How companies like CubicPV fare will go a long way in determining if President Biden's signature climate legislation can successfully reduce U.S. dependence on Chinese clean-energy manufacturing.

CubicPV focuses on a key solar-panel component called silicon wafers—97% of which are produced in China. None is manufactured in the U.S.

The company, founded by Massachusetts Institute of Technology engineers in 2008 and originally named 1366 Technologies, has tried to build a wafer factory in three different countries, including the U.S. Each attempt collapsed, in part because of competition from less-expensive Chinese products. Many of its peers have floundered, too. Most notable was taxpayer-funded solar-panel maker Solyndra, which filed for bankruptcy in 2011 and cost taxpayers more than \$500 million.

CubicPV is making another try in the U.S., helped by fresh money from investors including Bill Gates and from clean-energy subsidies in the Inflation Reduction Act. The company announced plans in December for a 10-gigawatt, \$1.4 billion wafer factory that it hopes will start production in 2025.

"This is simply a Darwinistic



CubicPV focuses on a key solar-panel component called silicon wafers—97% of which are produced in China.

test that we survived," CubicPV Chief Executive Frank van Mierlo said. Now, "for the first time in our entire history, the current is with us."

CubicPV's wafer factory is one of 50-odd solar-manufacturing projects representing more than \$5 billion in investment that have been announced since the start of the Biden administration, according to the Energy Department, many spurred by the new subsidies.

"The IRA has been a game changer," said Hunter Hunt, the chief executive of Texas-based Hunt Energy, part of a century-old oil-and-gas group that is now CubicPV's biggest investor.

Still, questions remain whether the influx of cash alone can make U.S. solar manufacturing viable. CubicPV's predecessor collected \$200 million in investor money and govern-

ment grants as well as a \$150 million Energy Department loan. After failing to get a factory built, the company returned the federal loan unused.

Rep. Cathy McMorris Rodgers, the top Republican on the House Committee on Energy and Commerce, called a loan program created by the IRA "Solyndra on steroids."

The Energy Department has said the loan program that included Solyndra, overall, turned a small profit and that the agency learned important lessons from the episode.

Backers of the law say the government support and surge in private investment could allow the U.S. to compete with China, which invested around \$60 billion in solar manufacturing between 2006 and 2021 and now controls more than 80% of the solar supply chain, accord-

ing to International Energy Agency estimates.

Wafer manufacturing generally starts by forming molten silicon into ingots, then sawing them into thin slices, a process that wastes as much as a third of the ingot in sawdust. CubicPV's process instead peels a thin layer of crystallized silicon off the top of the molten material, a technique the company says is faster, cheaper and less wasteful.

In 2015, Van Mierlo and New York's then-governor, Andrew Cuomo, announced that CubicPV's predecessor, 1366, would build a \$700 million wafer factory in New York. The company 1366 had hoped would fund its factory, Japanese chemicals and silicon manufacturer Tokuyama, pulled out. Van Mierlo blames Chinese competition; Tokuyama says it had con-

cerns about the viability of 1366's business.

In early 2018, 1366 canceled the New York project and pivoted to Malaysia. That factory only operated for around half a year. "Every single time big, bad China came and sort of wrecked everything," Van Mierlo said.

Van Mierlo shifted his attention to India, where the government was offering subsidies to build solar manufacturing plants. 1366 put up its hand.

After the U.S. passed the Inflation Reduction Act last year, Van Mierlo calculated American incentive levels were 11 times greater than India's. CubicPV switched its focus back to the U.S. For its first factory, CubicPV is abandoning its proprietary technique in favor of mainstream processes that use Chinese equipment.

## Boeing Delays Dreamliner Deliveries

By ANDREW TANGEL

Boeing said it would delay deliveries of its 787 Dreamliners in the coming weeks after discovering a new defect.

The Arlington, Va.-based airplane maker said the defect is related to a fitting on the plane's horizontal stabilizer, a wing-shaped surface at the tail of the plane.

The company said the issue didn't pose an immediate safety problem.

Boeing said it was performing inspections of its jets in inventory and expected that fixing the problem would take a couple of weeks per plane. Boeing said it didn't expect the problem to affect its overall target of delivering 70 to 80 Dreamliners this year.

The FAA said that Boeing notified regulators about the manufacturing problem and that it wouldn't approve any Dreamliners for delivery until the matter is addressed to the regulator's satisfaction.

Boeing shares closed 0.7% lower Tuesday, while major U.S. stock indexes settled slightly higher.

The problem adds to Boeing's challenges with the Dreamliner. The company in February halted deliveries because of regulatory documentation issues after notifying regulators that it was analyzing a fuselage component. The FAA in March cleared Boeing to resume Dreamliner deliveries.

Deliveries of the jets previously had been largely halted for nearly two years until resuming in August 2022, as Boeing contended with various production and regulatory issues over that time.

## Tiremaker Pirelli's CEO Seeks to Curb China's Grip

By ERIC SYLVERS

MILAN—Pirelli's chief executive wants the Italian government to help him sideline a Chinese state-owned investor in the Italian tiremaker, warning that the company's independence is at stake.

Pirelli CEO Marco Tronchetti Provera, who previously arranged the initial Chinese purchase of a large stake in the company, told a closed-door meeting with the Italian government on Tuesday that Rome must take action to block a power grab by Beijing-controlled Sinochem, according to a person familiar with the talks.

Relations between Tronchetti Provera, who has run Pirelli for more than 30 years, and the

Chinese conglomerate have broken down in recent months, according to a person familiar with the relationship. Tronchetti Provera told Rome officials that the Chinese company is trying to interfere with Pirelli's management in ways forbidden by an agreement reached when it bought its stake.

Tronchetti Provera's meeting with the officials is part of a government review initiated when Sinochem informed Rome that a pact between Pirelli's shareholders would be renewed.

Sinochem didn't respond to a request for comment.

The conflict over who controls Pirelli is an example of the rising economic tensions between China and Western

countries, where executives and politicians once welcomed Chinese investments but have become increasingly wary. Business and economic relations between the two sides have

### Tronchetti Provera controls 14% of Pirelli through his investment firm.

cooled in recent years as geopolitical tensions have flared, with many European countries increasingly viewing China as a strategic rival as well as an important trading partner.

China's alignment with Russia

during the latter's invasion of Ukraine has further cooled the relationship.

The Italian government has said it would decide in the coming month whether to wield the so-called golden power that allows it to block major decisions at companies considered to be of strategic importance to the country.

Invoking that power would allow Rome to block board appointments or an eventual bid by Sinochem to increase its 37% stake in Pirelli. Tronchetti Provera controls 14% of the company through his investment firm.

Italian officials are investigating whether Sinochem in recent months failed to respect the original agreement from 2015 that forbids the Chinese company from trying to influence strategic decisions at Pirelli, according to

the person familiar with the discussions.

the discussions.

Also at issue is the composition of Pirelli's board. A recent agreement between Sinochem and Tronchetti Provera said the Chinese could increase their board representation, but Tronchetti Provera is now pushing to stop that, according to another person familiar with the matter.

Tronchetti Provera and Sinochem renewed their shareholders' pact in May. But the relationship was already fraying, triggered by tensions over who really controls Pirelli, according to the person familiar with the relationship.

Italy's relationship with China has been under scrutiny from the U.S. and other Western countries since 2019, when the then-government in Rome signed up to China's Belt and Road Initiative. The memorandum of understanding was considered an important victory for China and brought angst to many European

capitals and Washington, but has had little impact on bilateral investments or trade.

The right-wing government of Prime Minister Giorgia Meloni is considering canceling the memorandum, but there are fears Beijing could retaliate against Italian businesses.

Chinese company ChemChina, which later became a part of Sinochem, bought an initial stake in Pirelli in 2015, when large state-owned Chinese firms were scooping up European companies. In the same period, other Chinese government-controlled entities bought stakes in Italian companies including oil company Eni and carmaker Fiat Chrysler, which has since become part of Stellantis. European governments have since put up barriers against Chinese investments.



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# Microsoft Settles Xbox Privacy Charges

Company to pay \$20 million, bolster protections for child gamers in FTC pact

By JOHN D. MCKINNON

WASHINGTON—Microsoft agreed to pay \$20 million to settle charges that it violated children's privacy rights when they signed up for its Xbox game system, the Federal Trade Commission said Tuesday.

The FTC charged that Microsoft violated the Children's Online Privacy Protection Act, known as COPPA, by collecting personal information from children under 13 when they signed up for Xbox, without notifying their parents or obtaining their parents' consent. Microsoft also improperly

retained children's personal information, the FTC said.

As part of the proposed settlement, Microsoft will be required to take several steps to bolster privacy protections for child Xbox users. For example, the order makes clear that avatars generated from a child's image, as well as biometric and health information, are covered by the COPPA protections. The order must be approved by a federal judge before it goes into effect.

"Our proposed order makes it easier for parents to protect their children's privacy on Xbox, and limits what information Microsoft can collect and retain about kids," said Samuel Levine, director of the FTC's Bureau of Consumer Protection.

Microsoft said it has made a "fundamental commitment that all players should have a



The tech giant, which had been accused of improperly collecting data about children, promised to improve its age validation.

safe and secure experience on our platform" and will "update our account creation process and resolve a data retention

glitch found in our system."

Microsoft also said it plans to develop next-generation identity and age validation for

all players, to better deliver age-appropriate experiences.

The FTC has announced three COPPA-related actions in the past few weeks, including a settlement last week with Amazon. The agency also is examining expansion of its privacy oversight.

FTC rules require online services aimed at children under 13 to notify parents about the personal information they collect, and to obtain verifiable parental consent before collecting and using any personal information collected from children.

According to the government's complaint, Microsoft violated the COPPA rule's requirements.

Microsoft asked users of Xbox Live—which allows people to play and chat with other players—to create an account providing their name, email

address and date of birth.

Even when a user indicated they were under 13, Xbox also asked them—until late 2021—to provide additional personal information, including a phone number, and to agree to Microsoft's advertising policy, which for a time included a pre-checked box allowing Microsoft to send promotional messages and share user data with advertisers.

Only then were parents asked to complete the account-creation process. From 2015-2020 Microsoft retained the data it collected from children, even when a parent failed to complete the account-creation process, the FTC said. COPPA prohibits retaining personal information about children for longer than is reasonably necessary to fulfill the purpose for which it was collected.



BanterAI lets users converse with chatbots that sound just like Taylor Swift and Kim Kardashian, among other celebrities.

## Chatbots Raise Legal Questions

Continued from page B1

any sort of person to be upset or to be misrepresented or anything," Young said. "But at the same time, we do say it's AI, it's fake. And the future of it will be partnered with these people and much more precise." He said that "hundreds of thousands of calls have been made" using BanterAI and that it has around 100,000 total users.

Another tool called Forever Voices AI recently introduced a \$1-a-minute AI "girlfriend" chatbot called CarynAI, created in partnership with a Snapchat influencer. It has also created audio chatbots for public figures including Taylor Swift, Kanye West and former presidents Barack Obama and Donald Trump, which are accessible on the messaging app Telegram for a fee of 60 cents a minute of incoming audio.

Forever Voices founder John H. Meyer said he received permission to use celebrities' voices for a beta launch of his Telegram chatbots and that proceeds from those bots were going to a mental-health charity. Meyer didn't respond to follow-up questions. Representatives for Swift and Obama, whose names and voices are used by the site, said they hadn't been contacted by Forever Voices and weren't aware the bots existed. Representatives for West, Trump and Musk didn't return requests for comment.

A representative for Swift said, "Forever Voices and John Meyer have never had any contact with Taylor Swift nor her management team. They do not have any rights to her voice, name, likeness or copyright materials."

### Convincing imitations

While the technology is prone to glitches, some responses are convincing. In a recent test by The Wall Street Journal, BanterAI's Obama chatbot responded to questions about what it thought of the "Succession" finale ("It was so captivating and I was on the edge of my seat the entire time"), who its favorite musician is (Kendrick Lamar) and its impression of the CNN



town hall with Trump (the bot said it watched the town hall, but it seemed to think there had been several candidates onstage). A representative for Obama declined to comment on the bot's remarks.

When the Journal asked BanterAI's Kim Kardashian chatbot whether it had tried Ozempic, a diabetes drug that many patients are using for weight loss, it said: "Yes I have tried Ozempic, and I found it to be very helpful in my own weight-loss journey." Asked what day of the week it injects the drug, the AI Kar-

**The words of a bot could be defamatory or violate someone's publicity rights.**

dashian said, "I typically inject Ozempic on Mondays, Wednesdays and Fridays," noting "I have found that injecting it three times a week helps me stay on track and get the best results." Ozempic is meant to be taken by injection once a week. A representative for Kardashian declined to comment; Kardashian herself hasn't spoken about the drug.

Asked about the exchange with the Kardashian bot, in a follow-up interview, Young said, "I'm going to go in there today and make sure that specific example never happens again." Afterward, the Kardashian bot was temporarily removed from the site and language was added to the home page that it would remove any

chatbots "if they are found to contribute hate speech, false endorsements, etc."

"If a company intends to benefit commercially from the use of a voice, or if there could be damaging or libelous content created using that voice, the law is clear: You must have the explicit consent of the person whose voice you are using," said a representative for ElevenLabs, which makes software that BanterAI uses to create its bots, in a statement, directing the Journal to a guide on its safety best practices. The representative said ElevenLabs would ban any accounts that used public figures' voices commercially without permission and that their IP addresses would be prevented from setting up new accounts.

### A roster of bots

BanterAI's chatbots include figures such as conspiracy theorist Alex Jones and Andrew Tate, a controversial internet personality who has been removed from various social-media platforms over hate speech. Young said BanterAI had chosen to create its bots based on the popularity of certain public figures. After a follow-up interview with Young, the bots for Jones and Tate were removed from BanterAI's website for internal testing. Both are now back up and running.

Forever Voices sets up modes to guide conversations with its celebrity bots. For AI Taylor Swift, that includes co-writing a song, going behind the lyrics (though the chatbot wasn't aware the real Swift had an album called "Midnights"), learning a language

with her or getting a personalized shout-out. When the chatbot introduced itself, it called the Forever Voices platform "groundbreaking" and explained how to buy credits for the service.

"My gut tells me that's crossing over the line," Erik Kahn, a partner at law firm Bryan Cave Leighton Paisner, who specializes in intellectual property, said of the AI Swift's introductory language. He added that some of the modes—learn a language, give a shout-out—may also violate a person's publicity rights, as they could constitute selling services.

Both the celebrities in question and the creators of these tools have certain legal protections, Kahn said. "You are always looking to balance the commercial aspects of the use against the unauthorized user's First Amendment rights," he said, adding that something said by a bot could also pose a risk of defamation.

### Stars get in on the act

AI tools that emulate the minds and voices of famous people are becoming more common. According to AI tracker There's an AI for That, there are roughly 30 tools for "voice changing," and another 30 for "conversations with famous people," a category that includes figures like Jesus and Warren Buffett.

Some AI companies have developed partnerships with celebrities. Speechify, founded by Cliff Weitzman in 2016, turns text files into speech and lets users select the voices of Gwyneth Paltrow or Snoop Dogg as readers. The app doesn't generate original responses.

Weitzman said he started Speechify to help people overcome literacy challenges such as dyslexia, which he has.

In recent months, synthetic audio, or speech that is computer-generated, has reached new levels of sophistication. An AI-generated song that used cloned voices of Drake and the Weeknd fooled fans of both artists, and a deepfake—or synthetic video generated by AI—of Joe Rogan promoting a libido-boosting supplement made the rounds on social media before it was removed. The Federal Trade Commission recently warned consumers about scammers placing fake emergency phone calls using cloned voices of people's loved ones.

## Cyber Chiefs Find It Hard to Land Seats on Boards

By KIM S. NASH

Cyber chiefs who want to serve on corporate boards are filling out their résumés with directorship training and stints on advisory boards. Such moves probably aren't enough.

The Securities and Exchange Commission's proposed rules for cybersecurity oversight

### CYBERSECURITY

call for companies to provide details about the cyber expertise of their boards. Chief information security officers might assume their skills will make them prime candidates, but they often lack the broad business experience and advanced degrees commonly sought in directors, recruiters and analysts say.

Those who check these boxes will be in demand, but other CISOs will find ordinary education and professional knowledge likely won't land them board seats, said Steven Martano, a partner at Artico Search, a recruiting firm that specializes in cybersecurity.

"The typical CISO is still caught up in the technology milieu," Martano said.

Among CISOs at companies in the Russell 1000 index, 32% have professional experience in roles outside of cybersecurity, according to a study out Tuesday from Artico and cybersecurity advisory organizations IANS Research and the CAP Group. In education, 38% of these CISOs have an advanced degree in technology, engineering, business or law, the researchers found.

"It's rare for a board to take anyone on as a one-trick pony," said Brian Walker, CAP Group chief executive.

Even at cybersecurity companies, competition for board roles can be fierce.

Data-analytics company Sumo Logic interviewed about 50 people when it was looking for a cyber expert for its board last year, said George Gerchow, chief security officer. "We wanted a

CISO who also had cross-functional expertise," he said. "It was a struggle."

The company in November named Timothy Youngblood, who until this month was chief security officer at T-Mobile US. Youngblood left Sumo Logic's board in May as the company went private.

"He brought the perspective of wide external experience," said Gerchow, who is also Sumo Logic's senior vice president of information technology and a faculty member at IANS Research.

Courses from director-training organizations can improve a cyber executive's knowledge of business and law, but there are no widely agreed standards for these programs, Walker said. "Some require quite a number of hours and a difficult test. Some are half-day meetings," he said. "The market is very, very immature."

John Scrimsher, CISO at Kontoor Brands, which makes Wrangler and Lee jeans, said he wants to attain a board seat, ideally at a multibillion-dollar company with a heavy manufacturing aspect. He has a long career in security at General Motors, Oracle and Hewlett Packard.

Not all CISOs can translate a cyberattack to financial, sales and product-distribution risks and then help give priority to how to respond, he said.

Scrimsher is increasing his business knowledge through the National Association of Corporate Directors' Accelerate program, a \$6,500 course for aspiring board members. Key for security leaders, he said, is "the hundreds of hours of study you need to do to break out of the technical and tactical mind-set that a CISO lives day to day."



## Reddit Sets Layoffs as Part of Restructuring

By SARAH E. NEEDLEMAN

Social-media company Reddit is laying off roughly 90 employees and slowing hiring as it restructures key parts of its business.

Reddit is making the moves to address priorities, including funding projects and achieving its goal of breaking even next year, Chief Executive Steve Huffman told employees in an email seen by The Wall Street Journal. The job cuts amount to around 5% of Reddit's workforce of approximately 2,000 people.

"We've had a solid first half of the year, and this restructuring will position us to carry that momentum into the second half and beyond," Huffman said in the email.

He added that the company

would reduce its hiring for the rest of the year to about 100 people from an earlier plan to hire 300.

Founded in 2005, Reddit is known for its message boards called subreddits that focus on a range of topics, plus its "ask me anything" digital town halls with celebrities, politicians and subject-matter experts. The company was sold to Condé Nast in 2006, and the magazine publisher's parent, Advance Publications, spun Reddit off in 2011 and remains a shareholder. Mr. Huffman joined as CEO in 2015.

San Francisco-based Reddit filed paperwork to go public in late 2021, just as tech-stock valuations began to slip. It hasn't yet followed through on those plans.



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# THE PROPERTY REPORT

## Commercial Property Faces Loan Crunch

A \$1.5 trillion bill for mortgages is coming due for landlords over the next three years

BY KONRAD PUTZIER

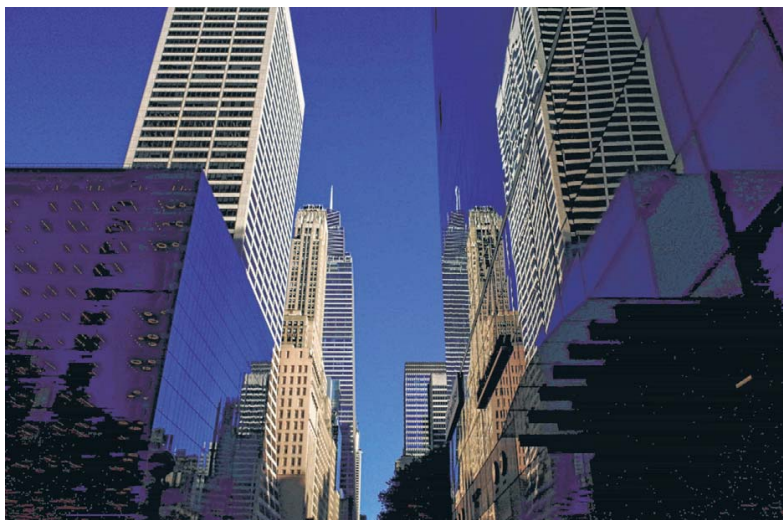
Nearly \$1.5 trillion in commercial mortgages are coming due over the next three years, according to data provider Trepp. Many of the commercial landlords on the hook for the loans are vulnerable to default in part because of the way their loans are structured.

Unlike most home loans, which get paid down each year, many commercial mortgages are known as interest-only loans. Borrowers make only interest payments during the life of the loan, with the entire principal due at the end.

Interest-only loans as a share of new commercial mortgage-backed securities issuance increased to 88% in 2021 from 51% in 2013, according to Trepp.

Typically, owners pay off this debt by getting a new loan or selling the building. Now, steeper borrowing costs and lenders' growing reluctance to refinance these loans are raising the likelihood that many of them won't be paid back.

Many banks, fearful of losses and under pressure from regulators and shareholders to shore up their balance sheets, have mostly stopped issuing



Steeper borrowing costs are helping to raise the risk that interest-only loans won't be repaid.

new loans for office buildings, brokers say. Office and some mall owners are facing falling demand for their buildings. Interest rates have more than doubled for some types of commercial mortgages, analysts and property owners say.

The combination of these forces is weighing on building values, shrinking the amount owners can borrow against their properties and increasing the risk of defaults.

Fitch Ratings recently estimated that 35% of pooled securitized commercial mortgages

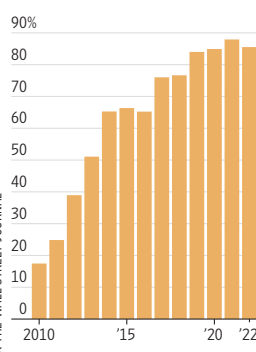
coming due between April and December 2023 won't be able to refinance based on current interest rates and the properties' incomes and values. While many malls and hotels face high default risks, the situation is particularly dire for office owners.

Xiaojing Li, managing director at data company CoStar's risk analytics team, estimates that as much as 83% of outstanding securitized office loans won't be able to refinance if interest rates stay at current levels.

A rise in defaults could ripple through the commercial real-estate market by forcing distressed sales and pushing down property values. It also could hit regional and community banks that are heavily exposed to the sector, forcing them to write down the value of commercial mortgages on their books and set aside more cash to cover for losses.

Mortgage defaults are still rare but rising rapidly. The share of securitized office loans that are delinquent jumped to 4.02% in May, from

Share of CMBS loans that are interest-only, by year of issuance



Source: Trepp

2.77% in April, to the highest level since 2018, according to data company Trepp.

Interest-only loans became more common in the middle of the past decade, said Rich Hill, head of real-estate strategy and research at investment manager Cohen & Steers. Following the Dodd-Frank Act and under pressure from regulators to cut back on risk, many banks reduced the size of the commercial mortgages they issued and shied away from riskier construction projects.

But at the same time, as a concession to borrowers, they started handing out more interest-only loans, Hill said.

Interest-only loans came with lower annual payments,

so property owners were able to spend less of their own cash. That boosted profits during good times.

The risk seemed minimal at the time. Interest rates were low and property values kept rising, meaning owners could expect to simply pay off the loan with a new one when the bill came due. Now, many landlords are no longer able to get new loans big enough to pay them back.

Only some defaults end with the lender taking the keys. Often, property owners can stave off foreclosure by paying off loans with their own cash or by extending and renegotiating mortgages. Still, debt brokers and attorneys say lenders are less patient than they have been in the past.

Mark Edelman, chair of law firm Morrison Foerster's global real-estate group, said he is seeing more lenders take over office buildings than at any point since the early 1990s.

After the 2008 financial crisis, many banks were willing to extend troubled loans, buying owners time. This time, fewer lenders are betting on a quick recovery, at least in the office sector. Most expect remote work to be a lasting phenomenon, meaning many office towers could struggle for years to come. "Banks don't want to kick the can down the road anymore," Edelman said.

## Sunbelt Building Boom Pinches Apartment Landlords

BY WILL PARKER

Historic numbers of new rental apartments opening over the next 18 months are poised to decrease profits for the largest publicly traded landlords, who are already contending with slower or declining rent growth.

Nationally, more than 950,000 multifamily units are under construction, according to the U.S. Census Bureau.

That equals three times the number for apartment construction from two decades ago.

Sunbelt cities are the most exposed to the recent ramp-up in new supply, according to a May report from real estate analytics firm Green Street.

For example, in Atlanta, rents are already flattening out.

Now apartment owners have to contend with the wave

of new construction that will follow a record in building permits last year. Green Street predicts Atlanta occupancy rates will decline.

Camden Property Trust and Mid-America Apartment Communities are among publicly traded landlords with the largest holdings in the South and Southwest, where new supply is booming.

Both firms beat consensus revenue expectations in the

first quarter. But many investors are looking toward the year ahead, when new leases get signed at much lower rent increases and competition from new buildings becomes more of a factor.

On April earnings calls, both companies conceded that they faced pressure from the crush of new units but also said that any negative effect would be short-lived. Permitting for future apartment developments is expected to cool off soon, they said, as higher interest rates make financing too expensive for many builders.

Shares of Camden and Mid-America rose after late April earnings reports, but since the start of the year their stock prices have fallen about 1% and 3% respectively.

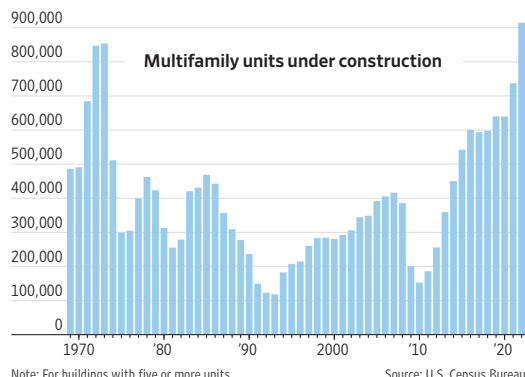
Overall, the FTSE Nareit Equity Apartments index, which tracks the performance of publicly traded multifamily owners, is up more than 5% in the year to date. That compares with a 12% gain for the S&P 500.

Pent-up demand for housing exploded in the months after the introduction of Covid-19 vaccines in late 2020, and a surge in the number of people searching for apartments lifted rents 25% over two years.

That rapid pace of growth has disappeared. The average asking rent for a market-rate apartment was \$1,716 in May, a 2.6% increase from the same month a year before, according to data provider Yardi Matrix. That compares with the



Atlanta rents are flattening ahead of a wave of new construction.



Note: For buildings with five or more units

Source: U.S. Census Bureau

15% annual increase seen in the first quarter of 2022, Yardi said.

Multifamily-building values fell 12% below their year-earlier levels this April, according to data provider MSCI Real Assets.

Rents are now falling in some Sunbelt cities with hous-

ing markets that boomed during the pandemic, including Phoenix and Las Vegas, according to Apartment List, a rentals website. In addition to new apartment supply, slowing job growth in these and other cities would also portend lagging rents in the near future, analysts said.

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## Insurer's Employees Revolt

Continued from page B1

ration, creativity and innovation."

A Farmers spokeswoman said the new system will include about 60% of the company's U.S. workforce of about 22,000 employees. She pointed out that the announced policy wouldn't go into effect until September, giving workers three months to adjust and make arrangements.

Farmers believes that as business conditions change, "so must business approaches," the spokeswoman said. Employees said the shift is unfair because they made life decisions based on statements made by the company that the remote policy would be permanent.

The uproar at Los Angeles-based Farmers represents an emerging tension point in the return-to-office saga. New management teams are imposing stricter workplace policies

on employees who counted on more-flexible work regimens being permanent. Chief executives Robert Iger at Walt Disney Co. and David Risher at Lyft also have faced pushback from some employees after recently announcing stricter office policies.

The reaction by Farmers' workforce shows the determination by many employees to resist these efforts. While the pushback is most intense against companies trying to restore five days a week in the office, hybrid workplace strategies also have triggered protests, petitions, walkouts and other harsh employee responses, say corporate recruiters and human-resources executives.

In Seattle last week, hundreds of Amazon.com workers held a lunchtime demonstration against the company's policy returning employees to the office three days a week. New York City Mayor Eric Adams also said last week that thousands of employees at city agencies would be allowed to work remotely twice a week, departing from the previous policy requiring them to be in the office five days, after workers complained.

Many employees see mandates to be in the office even three or four days a week as "a betrayal of trust," said Dan Kaplan, a senior client partner at Korn Ferry, one of the world's largest recruiting firms. "You said I wouldn't have to do that. We're just as productive," he said of the worker perspective. "Why should that have to change?"

With the job market tight, businesses are taking these reactions seriously. In an April survey by Korn Ferry, 72% of workers said they would choose a job with a lower salary if it offered flexibility to work from home, while 58% said going back to the office would have a negative impact on their mental health.

On the other hand, in some industries, most companies are adopting hybrid workplace policies, limiting the workers' ability to switch jobs to continue working from home. Insurance is one of these. In May, 52% of insurance companies had mandated hybrid arrangements, up from 34% in February, according to Scoop Technologies, a software firm that developed an index monitoring workplace strategies of close to 4,500 companies.



TECHNOLOGY & MEDIA

# CNN Hosts Criticize CEO Licht

Continued from page B1

story, there was concern about Licht's management style. Unlike Zucker, who was a constant presence in the newsroom, Licht isolated himself on a different floor and seldom engaged with talent or producers, people at the network have said.

Licht on Monday told staff that he was sorry that news about his management of the network had overshadowed the journalism that CNN is doing. It hasn't done much to change employees' feelings about Licht, according to people who were on the call.

Licht's tenure at CNN began on a rocky note: In April of last year—days before he offi-

president—including a town hall last week moderated by Sean Hannity—were pretaped.

Fox News parent Fox Corp. and Journal parent News Corp share common ownership.

CNN's Christiane Amanpour said during a recent speech to Columbia Journalism School students that she disagreed with Licht's decision to host Trump. "I still respectfully disagree with allowing Donald Trump to appear in that particular format," she said.

Kaitlan Collins, who moderated the Trump town hall, has since been promoted to be the anchor of CNN's 9 p.m. hour.

The anger inside CNN isn't exclusively aimed at Licht. There is also concern about what some staffers and talent say is the high level of involvement by Zaslav, who has been much more hands-on than previous owners of CNN, some current and former network employees said.

Zaslav has been outspoken about CNN's editorial mission. During an investor conference that followed the Trump town hall, he said: "We need to show both sides of every issue." In April 2022, days after he took the helm at Warner Bros. Discovery, Zaslav said he wanted CNN to distinguish itself from "advocacy networks."

Current and former CNN hosts and executives said in previous regimes, accountability to the parent company was limited primarily to budgets and compliance, with the network's own editorial standards and practices. There may be discussions about programming strategies, but rarely did that play out in public as it does now, they said.

The appointment of Leavy, who is a member of Zaslav's leadership team, has also raised eyebrows among employees because it brings a corporate officer closer to the network, people familiar with the matter said.

The person close to Zaslav said he has spent a fair amount of time on CNN, even though it accounts for less than 10% of Warner Bros. Discovery's revenue. But the person pushed back on the idea that Zaslav's level of engagement was inappropriate, noting that unlike previous owners who ran the media conglomerate like a holding company, Zaslav is heavily involved in all operations.

## There is still agita around the network about the town hall with Donald Trump.

cially assumed his role—he had to address CNN employees who had just learned that new parent Warner Bros. Discovery had decided to shut down the CNN+ streaming service just weeks after it launched.

Since Licht took over, CNN's ratings have been at historic lows and the network has been struggling to find the right formula in prime time, while also experimenting with its morning programs. Licht has tried to reset the network's editorial approach, after research showed viewers were turned off by inflammatory political coverage, The Wall Street Journal previously reported.

Nearly four weeks after the Trump town hall, there is still agita inside the network about how it was handled. Talent said the interview with the former president should have been pretaped instead of live, so that it could be edited appropriately, according to people familiar with their thinking. On rival Fox News, recent interviews with the former



Shares of the Indiana-based manufacturer of RVs under brands including Airstream and Jayco leaped nearly 18% in Tuesday's trading.

# Thor Says Discounts Are Helping Its Sales Recover

By WILL FEUER

RV maker **Thor Industries** said sales fell sharply in the April quarter but have begun to recover as dealerships tempted buyers with discounts on aging models.

Despite the uptick, Thor said Tuesday it remains cautious as rising interest rates weigh on demand for big-ticket items and stubbornly high inflation squeezes Americans' budgets for discretionary purchases. Americans have pulled back on spending in various areas, from apparel and shoes to home-improvement projects and furniture, but demand for travel has so far held strong.

Thor, which owns brands such as Airstream and Jayco, said it may need to help dealers offer bigger promotions to sell through old RV models.

Shares of Elkhart, Ind.-based Thor jumped nearly 18% to \$93.13 in Tuesday's trading. The upbeat commentary also propelled shares of rival **Winnebago Industries** 9.4% higher and shares of RV retailer **Camping World Holdings** up 9%.

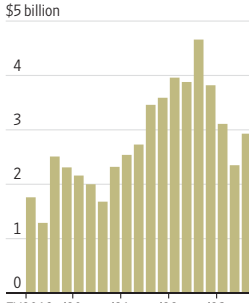
Demand for RVs surged during the pandemic as many Americans turned to RVs in place of international travel. Manufacturers such as Thor struggled to keep up with demand, and many dealerships commanded prices above the suggested retail price.

The market, though, began to turn around at the end of last year as inflation and rising interest rates weighed on demand.

Now, dealerships and manufacturers are racing to sell through model year 2022 inventory that is still sitting on lots around the country as the

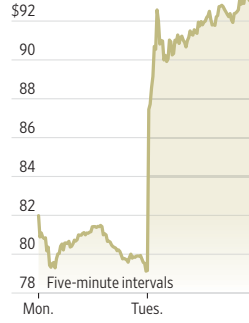
### Thor Industries

Quarterly revenue



Note: Most recent fiscal quarter ended April 30

Share price, past two days



Sources: S&P Capital IQ (revenue); FactSet

promotional activity may be necessary to assist our independent dealers in moving previous model year product through the channel," Thor said.

Thor executives said the company is also right-sizing production to match cautious orders from dealers. Chief Executive Bob Martin said the steps will position the company well for the rollout of model year 2024 vehicles.

For the three months ended April 30, Thor's sales tumbled 37.1% to \$2.93 billion, but that wasn't as steep a drop as Wall Street analysts were expecting.

The consensus estimate was for sales of \$2.81 billion, according to FactSet.

Thor's earnings dropped to \$120.7 million, or \$2.24 a share, compared with \$348.1 million, or \$6.32 a share. Analysts were expecting a profit of \$1.07 a share, according to FactSet.

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\$ 50,000 Minimum Bid (Lot 5)  
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Lot 5 1.85 AC  
Zoning: C-2-A

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The unrest inside CNN about Chris Licht's leadership reached a boiling point after publication of an article about him in the Atlantic.

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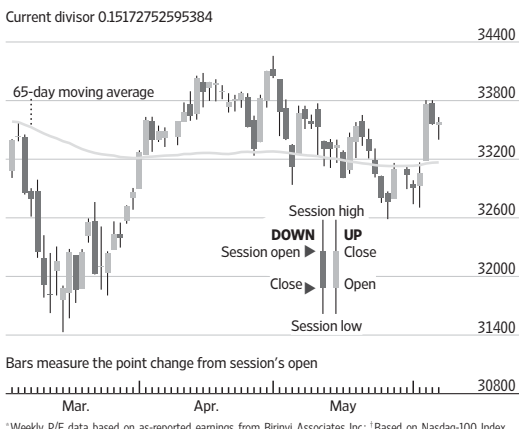


# MARKETS DIGEST

## EQUITIES

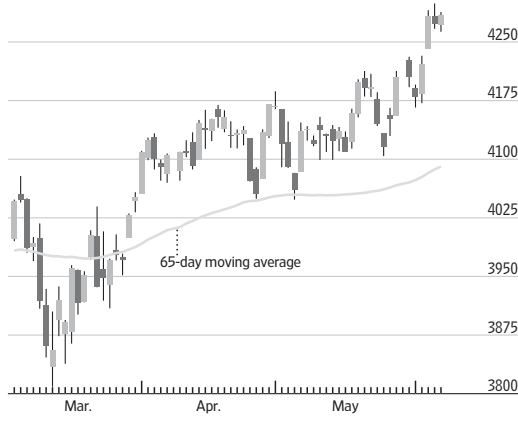
### Dow Jones Industrial Average

**33573.28** ▲10.42, or 0.03%  
 High, low, open and close for each trading day of the past three months.



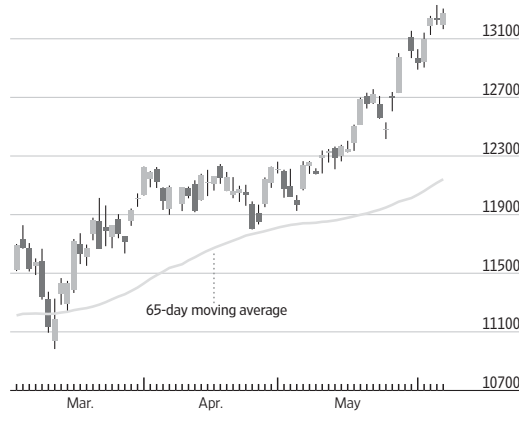
### S&P 500 Index

**4283.85** ▲10.06, or 0.24%  
 High, low, open and close for each trading day of the past three months.



### Nasdaq Composite Index

**13276.42** ▲46.99, or 0.36%  
 High, low, open and close for each trading day of the past three months.



### Major U.S. Stock-Market Indexes

	High	Low	Close	Net chg	% chg
<b>Dow Jones</b>					
Industrial Average	33631.25	33399.69	<b>33573.28</b>	10.42	0.03
Transportation Avg	14104.55	13810.71	<b>14061.15</b>	71.28	0.51
Utility Average	909.88	900.20	<b>902.49</b>	-1.73	-0.19
Total Stock Market	42855.51	42512.22	<b>42812.42</b>	199.10	0.47
Barron's 400	946.02	923.46	<b>944.65</b>	18.14	1.96

	High	Low	Close	Net chg	% chg
<b>Nasdaq Stock Market</b>					
Nasdaq Composite	13306.21	13165.65	<b>13276.42</b>	46.99	0.36
Nasdaq-100	14593.50	14476.99	<b>14558.09</b>	1.59	0.01

	High	Low	Close	Net chg	% chg
<b>S&amp;P</b>					
500 Index	4288.33	4263.09	<b>4283.85</b>	10.06	0.24
MidCap 400	2534.04	2474.53	<b>2530.24</b>	50.94	2.05
SmallCap 600	1193.81	1154.00	<b>1190.54</b>	32.84	2.84

	High	Low	Close	Net chg	% chg
<b>Other Indexes</b>					
Russell 2000	1859.39	1801.59	<b>1855.40</b>	48.69	2.69
NYSE Composite	15403.40	15260.72	<b>15391.80</b>	116.59	0.76
Value Line	554.22	543.48	<b>553.62</b>	8.91	1.64
NYSE Arca Biotech	5427.32	5386.16	<b>5402.47</b>	12.28	0.23
NYSE Arca Pharma	867.57	855.56	<b>858.66</b>	-1.51	-0.18
KBW Bank	82.33	79.16	<b>81.74</b>	2.35	2.97
PHLX <sup>®</sup> Gold/Silver	125.77	124.32	<b>125.74</b>	0.43	0.34
PHLX <sup>®</sup> Oil Service	75.62	73.30	<b>75.26</b>	0.70	0.94
PHLX <sup>®</sup> Semiconductor	3504.42	3417.51	<b>3488.34</b>	44.22	1.28
Cboe Volatility	14.97	13.95	<b>13.96</b>	-0.77	-5.23

© Nasdaq PHLX Sources: FactSet; Dow Jones Market Data

### Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Fiserv	FISV	11,684.2	114.41	0.18	0.16	115.00	114.02
GE HealthCare Techs	GEHC	8,441.4	81.55	-1.38	-1.66	82.95	80.49
SPDR S&P 500 ETF Trust	SPY	6,406.4	428.52	0.49	0.11	432.99	424.26
iShares Russell 2000 ETF	IWM	3,863.6	184.40	0.09	0.05	184.63	184.23
iShares MSCI ACWI ETF	ACWI	3,602.2	94.29	...	unch.	94.29	94.04
Tesla	TSLA	2,807.3	224.55	3.24	1.46	249.16	134.50
General Motors	GM	2,745.6	26.75	-0.01	-0.03	25.28	34.13
Apple	AAPL	2,175.6	179.05	-0.16	-0.09	179.58	178.93

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Yext	YEET	494.6	10.82	1.22	12.71	11.35	9.56
Stitch Fix Cl A	SPIX	1,331.7	3.89	0.21	5.71	4.12	3.68
Dave Buster's	PLAY	756.0	35.15	1.41	4.18	35.49	32.68
Mirati Therapeutics	MRTX	84.4	42.00	1.50	3.70	42.00	40.50
Sabre Corp.	SABR	50.7	3.47	0.12	3.58	3.48	3.35

© FactSet; Dow Jones Market Data

### Trading Diary

Volume, Advancers, Decliners

	NYSE	NYSE Amer.
<b>Total volume*</b>	850,457,799	7,873,281
<b>Adv. volume*</b>	678,613,428	3,700,458
<b>Decl. volume*</b>	162,651,743	4,075,136
<b>Issues traded</b>	3,079	312
<b>Advances</b>	2,348	178
<b>Declines</b>	632	120
<b>Unchanged</b>	99	14
<b>New highs</b>	110	3
<b>New lows</b>	18	13
<b>Closing Arms*</b>	0.92	1.56
<b>Block trades*</b>	4,240	67

	Nasdaq	NYSE Arca
<b>Total volume*</b>	4,810,914,072	255,793,278
<b>Adv. volume*</b>	3,477,092,202	212,674,809
<b>Decl. volume*</b>	1,284,739,135	39,396,202
<b>Issues traded</b>	4,602	1,761
<b>Advances</b>	3,172	1,460
<b>Declines</b>	1,256	279
<b>Unchanged</b>	174	22
<b>New highs</b>	131	68
<b>New lows</b>	83	11
<b>Closing Arms*</b>	0.93	1.30
<b>Block trades*</b>	30,189	1,100

\* Primary market NYSE, NYSE American NYSE Arca only. (TRIN) A comparison of the number of advancing and declining issues with the volume of shares rising and falling. An Arms of less than 1 indicates buying demand; above 1 indicates selling pressure.

### International Stock Indexes

Region/Country	Index	Close	Net chg	Latest % chg	YTD % chg
<b>World</b>	<b>MSCI ACWI</b>	<b>664.49</b>	1.71	0.26	9.8
	<b>MSCI ACWI ex-USA</b>	<b>299.92</b>	0.82	0.27	6.6
	<b>MSCI World</b>	<b>2877.97</b>	7.70	0.27	10.6
	<b>MSCI Emerging Markets</b>	<b>988.49</b>	1.80	0.18	3.4
<b>Americas</b>	<b>MSCI AC Americas</b>	<b>1624.63</b>	4.84	0.30	11.5
Canada	<b>S&amp;P/TSX Comp</b>	<b>20055.60</b>	123.98	0.62	3.5
Latin Amer.	<b>MSCI EM Latin America</b>	<b>2381.90</b>	41.57	1.78	11.9
Brazil	<b>BOVESPA</b>	<b>114610.10</b>	1913.78	1.70	4.4
Chile	<b>S&amp;P IPSA</b>	<b>3229.41</b>	33.84	1.06	1.8
Mexico	<b>S&amp;P/BMV IPC</b>	<b>54432.19</b>	896.14	1.67	12.3
<b>EMEA</b>	<b>STOXX Europe 600</b>	<b>461.68</b>	1.75	0.38	8.7
Eurozone	<b>Euro STOXX</b>	<b>454.40</b>	0.76	0.17	10.8
Belgium	<b>Bel-20</b>	<b>3656.90</b>	22.38	0.62	-1.2
Denmark	<b>OMX Copenhagen 20</b>	<b>2076.04</b>	48.92	2.41	13.1
France	<b>CAC 40</b>	<b>7209.00</b>	8.09	0.11	11.4
Germany	<b>DAX</b>	<b>15992.44</b>	28.55	0.18	14.9
Israel	<b>Tel Aviv</b>	<b>1749.90</b>	-8.23	-0.47	-2.6
Italy	<b>FTSE MIB</b>	<b>27036.67</b>	179.82	0.67	14.0
Netherlands	<b>AEX</b>	<b>762.22</b>	-1.12	-0.15	10.6
Norway	<b>Oslo Bors All-Share</b>	<b>1376.63</b>	-14.90	-1.07	1.0
South Africa	<b>FTSE/JSE All-Share</b>	<b>76840.11</b>	237.27	0.31	5.2
Spain	<b>IBEX 35</b>	<b>9310.80</b>	21.70	0.23	13.1
Sweden	<b>OMX Stockholm</b>	<b>853.83</b>	...	Closed	9.2
Switzerland	<b>Swiss Market</b>	<b>11468.27</b>	53.27	0.47	6.9
Turkey	<b>BIST 100</b>	<b>5388.80</b>	16.14	0.30	-2.2
U.K.	<b>FTSE 100</b>	<b>7628.10</b>	28.11	0.37	2.4
U.K.	<b>FTSE 250</b>	<b>19217.22</b>	103.67	0.54	1.9
<b>Asia-Pacific</b>	<b>MSCI AC Asia Pacific</b>	<b>163.98</b>	0.32	0.19	5.3
Australia	<b>S&amp;P/ASX 200</b>	<b>7129.60</b>	-86.67	-1.20	1.3
China	<b>Shanghai Composite</b>	<b>3195.34</b>	-37.10	-1.15	3.4
Hong Kong	<b>Hang Seng</b>	<b>19099.28</b>	-9.22	-0.05	-3.4
India	<b>S&amp;P BSE Sensex</b>	<b>62792.88</b>	5.41	0.01	3.2
Japan	<b>NIKKEI 225</b>	<b>32506.78</b>	289.35	0.90	24.6
Singapore	<b>Straits Times</b>	<b>3190.11</b>	1.09	0.03	-1.9
South Korea	<b>KOSPI</b>	<b>2615.41</b>	...	Closed	16.9
Taiwan	<b>TAIEX</b>	<b>16761.66</b>	47.23	0.28	18.6
Thailand	<b>SET</b>	<b>1528.54</b>	-2.66	-0.17	-8.4

Sources: FactSet; Dow Jones Market Data


### Percentage Gainers...

Company	Symbol	Latest Session Close	Net chg	% chg	High	52-Week High	% chg
Beamr Imaging	BMR	3.22	1.06	49.07	8.04	1.36	...
GitLab Cl A	GTLB	46.44	11.04	31.19	70.96	26.24	-8.9
MicroVision	MVIS	6.95	1.62	30.39	7.27	1.82	78.7
G-III Apparel Group	GIII	20.98	4.59	28.00	28.12	11.60	-22.6
Big Lots	BIG	7.48	1.58	26.78	29.25	4.78	-69.1
Castle Biosciences	CSST	14.72	3.06	26.24	36.10	9.26	-30.7
AlloVir	ALVR	5.61	1.15	25.78	10.29	3.17	40.3
Professional Diversity	IPDN	4.30	0.74	20.79	7.77	0.92	151.5
Aemetis	AMTX	6.95	1.19	20.66	11.50	1.16	-13.6
Gaotu Techedu ADR	GOTU	3.12	0.51	19.54	5.49	0.64	95.0
Rent the Runway	RENT	2.48	0.39	18.66	5.74	1.10	-38.9
ImmunityBio	IBRX	3.29	0.50	17.92	7.80	1.21	-22.0
Thor Industries	THO	93.15	13.99	17.67	105.36	67.09	22.2
Cibus	CBUS	24.67	3.55	16.81	38.85	6.25	67.1
Zura Bio	ZURA	7.58	1.09	16.80	37.55	4.87	-23.9

### Most Active Stocks

Company	Symbol	Volume (000)	% chg from 65-day avg	Latest Session Close	% chg	52-Week High	Low
Faraday Future	FFIE	245,237	269.0	31.46	7.85	0.15	
T2 Biosystems	TTOO	148,275	1378.9	0.08	12.71	15.00	0.07
Tesla	TSLA	144,860	9.2	221.31	1.70	314.67	101.81
Recruiter.com Group	RCRT	126,219	36633.8	0.38	98.02	1.81	0.18
Hoth Therapeutics	HOTH	97,311	41824.6	3.35	78.19	17.49	1.52
ProSh UltraPro Shrt QQQ	SQQQ	92,622	-28.8	21.72	0.09	69.55	21.22
ProShares UltraPro QQQ	TOQQ	79,310	-42.3	36.86	-0.11	39.38	16.10
NIO ADR	NIO	78,631	75.2	7.88	2.74	24.43	7.00
Advanced Micro Devices	AMD	75,096	11.4	124.23	5.34	130.79	54.57
Palantir Technologies	PLTR	74,027	37.1	15.46	1.44	15.70	5.92

\* Volumes of 100,000 shares or more are rounded to the nearest thousand



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### Percentage Losers

Company	Symbol	Latest Session Close	Net chg	% chg	High	52-Week High	% chg
Tingo Group	TIO	1.32	-1.23	-48.24	5.69	0.54	106.3
Novocure	NVCR	47.00	-35.51	-43.04	120.03	46.06	-40.1
Chijet Motor	CJET	4.20	-1.70	-28.81	13.02	3.49	-57.9
TransCode Therapeutics	RNAZ	3.21	-0.79	-19.75	42.00	3.12	-91.3
GraniteSh 1.5x Lg Coin	CONL	6.38	-1.41	-18.10	24.43	3.80	...
MultiMetaVerse	MMV	1.85	-0.35	-1			











BANKING & FINANCE

# Morgan Stanley Banker to Join Law Firm

**Veteran deal maker Rob Kindler will become global chair of M&A at Paul Weiss**

By CARA LOMBARDO

A well-known Morgan Stanley deal maker is leaving for one of Wall Street's top law firms.

Rob Kindler, Morgan Stanley's global chair of mergers and acquisitions, who over a 23-year run as a banker became a fixture in the tightknit world of deal advisory, will join Paul, Weiss, Rifkind, Wharton & Garrison in the fall as a corporate partner and global chair of M&A, officials at the firms said. Kindler began his career at Cravath, Swaine & Moore, another top deal law firm, where he practiced for 20 years.

At Paul Weiss, he will be reunited with his one-time protégé, Scott Barshay, who worked for Kindler at Cravath

in the late 1990s and went on to become one of the most prolific M&A lawyers. Barshay defected to Paul Weiss from Cravath in 2016, a move that helped transform Paul Weiss into one of the top deal firms, alongside the likes of Wachtell, Lipton, Rosen & Katz and Sullivan & Cromwell.

Kindler, 69, said he has no interest in retiring and had been starting to think about his next act when Barshay took him to lunch earlier this year and floated the idea of returning to law.

"Right away it clicked," Kindler said. "I haven't talked to and wouldn't talk to anyone but Paul Weiss."

Kindler is taking the summer off and will begin at Paul Weiss after Labor Day.

Barshay will remain Paul Weiss's corporate-department chair and Brad Karp, who has overseen the firm's expansion beyond its litigation roots into M&A and other areas, will remain chairman. In addition to deals, Kindler will advise cli-

ents on issues including activist investors, as he did at Morgan Stanley.

Barshay said he noticed Kindler still had his legal chops while working across from him on a recent deal and saw his years as a banker as an added bonus. "This is a guy who taught me how to be an M&A lawyer," Barshay said. The two also shared the same Midtown Manhattan barber for years.

While it is rare to see bankers remain at bulge-bracket firms like Morgan Stanley or Goldman Sachs much past age 60, it isn't abnormal for established lawyers on Wall Street to continue working well past typical retirement ages. Another veteran banker, Mark Shafir, recently left Citigroup, where he was co-head of global M&A, and joined advisory firm Consello Group.

Kindler joined Morgan Stanley in 2006, the same year as its chief executive, James Gorman. Kindler ad-



Kindler had been at Morgan Stanley since 2006.

vised its management during the 2008 financial crisis and on acquisitions including those of E\*Trade Financial and Eaton Vance. He said he planned to stay through Gorman's tenure. Gorman said

last month that he would step down as CEO in the next year.

Other deals Kindler has advised on over the years include Time Warner's \$85 billion sale to AT&T, the \$130 billion merger that formed DowDuPont and Viacom's \$40 billion combination with CBS. His work with Time Warner spans his time at Cravath and as a banker and over the years allowed him to work alongside Paul Weiss partners who shared the account, including Bob Schumer, the brother of Senate Majority Leader Chuck Schumer.

When a 46-year-old Kindler left Cravath to help jumpstart JPMorgan Chase predecessor Chase Manhattan's investment bank in 2000, a Wall Street Journal article described him as "the firm's hottest mergers lawyer" and noted the Queens native's aggressive approach to courting new business. At the time, he had negotiated what was then believed to be the largest ever legal fee for a merger, \$35

million, for work on the AOL-Time Warner tie-up.

While many M&A lawyers have tried their hand at banking, few do it after establishing themselves in law. And there are even fewer examples of an established banker re-joining big law.

The highest performing bankers and lawyers can make \$10 million or more a year, though lawyers' pay can be more predictable. A large portion of bankers' compensation is dependent on M&A deals closing and is paid in their employers' stock, whereas lawyers get paid hourly in cash.

M&A activity is down 44% from this time last year, according to Dealogic. Despite the lull, Paul Weiss has advised on several of the largest deals so far this year, including Merck's \$10.8 billion purchase of Prometheus Biosciences and Carrier Global's roughly \$13 billion acquisition of Viessmann Climate Solutions.

# GPB Capital Co-Defendant Pleads Guilty to Fraud

By TED BUNKER

Former GPB Capital Holdings executive Jeffrey Lash on Tuesday pleaded guilty to wire fraud, a move that stands to strengthen the Justice Department's case against the private-equity firm's founder and another co-defendant, and potentially accelerate the resolution of a related \$1.7 billion civil fraud case.

In 2021, a federal grand jury indicted Lash; David Gentile, GPB Capital's founder and owner; and a third man, Jeffrey Schneider, on charges stemming from their operation of the firm as a "Ponzi-like scheme," as New York State Attorney General Letitia James described it. Starting in 2013, the firm attracted more than \$1.7 billion from over 17,000 investors, including many retirees, authorities have said.

The criminal complaint alleged that Gentile, Lash and Schneider used new money invested in the New York firm's private-equity funds to cover the 8% returns promised to earlier investors. Schneider, the chief executive of Ascendant Capital, was GPB Capital's chief fundraiser.

All three defendants previously entered not guilty pleas to federal charges of conspiracy, securities fraud and wire fraud. GPB Capital previously said it had cooperated with government investigations and was "extremely disappointed" by the criminal charges against the men and related Securities and Exchange Commission civil fraud allegations against the firm, which it has denied.

Robert C. Gottlieb, a lawyer for Lash, said his client pleaded guilty to one count of wire fraud in federal court in

Brooklyn, N.Y. Lash, a Florida resident, could face more than 15 years in prison, according to a spokesman for Breon Peace, the U.S. attorney for the Eastern District of New York. Sentencing has been set for Oct. 4.

**Jeffrey Lash could face more than 15 years in prison for his role in the fraud.**

The spokesman declined to comment further.

The New York attorney general and several other state authorities also have brought civil actions against GPB Capital alongside the SEC. All the civil and administrative pro-

ceedings have been put on hold pending the outcome of the criminal case and investor funds have been retained by GPB Capital, which hasn't paid investors any returns since 2018.

A trial for Gentile and Schneider is scheduled to begin in June 2024 before U.S. District Judge Diane Gujarati in Brooklyn.

The firm has been operating under the oversight of a court-appointed monitor, Joseph Gardemal, a managing director with consulting firm Alvarez & Marsal Holdings, since February 2021. He has said that GPB managers have been unable to formulate a plan to begin distributing any of the roughly \$1 billion it has on hand to investors and other claimants.

Gardemal and the SEC have recommended putting GPB Capital into receivership, a

move that has been contested by Gentile as the firm's owner. Chief Judge Margo Brodie of the U.S. District Court for the Eastern District of New York in Brooklyn, who is overseeing the SEC case, hasn't acted on the receivership recommendations. The firm said on its website in April that it couldn't set up a distribution plan for investors until the court rules on a receivership.

Under the monitor's oversight, GPB Capital has sold assets to amass about \$1 billion in gross proceeds, according to Gardemal. He has said that a "significant portion" of that cash "is available for distribution" and that if he is appointed as receiver, he can come up with a distribution plan within 45 days.

"Hopefully [the guilty plea] creates a bit more pressure on the Eastern District [court] to

get to a resolution," said one investor in GPB funds who expressed frustration that his money has been locked away since 2018.

From GPB Capital's formation, Lash had been involved in acquiring and overseeing the operation of auto dealerships held by GPB funds, which became the firm's largest asset category. Before joining GPB Capital, Lash had brought in Gentile as an investor in some of his dealerships and several of those operations ultimately became part of GPB's holdings. In court papers, Lash has said that during his time with the firm, its holdings expanded to 66 dealerships from four.

Under an agreement reached in 2021, the firm sold dozens of dealerships held by GPB Automotive Portfolio LP to Group 1 Automotive in Houston for about \$880 million.

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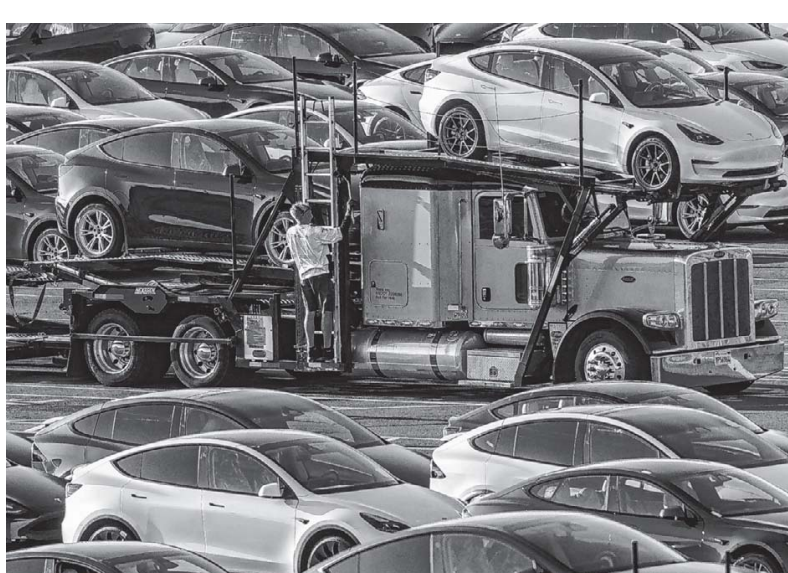
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Electronic-vehicle giant Tesla is among eight tech companies that have dominated the stock rally.

## Narrow Rally Sets Concerns

Continued from page B1

compared with its equally weighted counterpart, which gives equal sway to every company in the index. Compared with the traditional index's 12% gain, the equally weighted version has added 1.8%. That is the largest-ever outperformance by the S&P 500 on a year-to-date basis, according to a Dow Jones Market Data analysis through Tuesday, based on data starting in 1990.

Other indicators of market breadth have also flashed warning signs. The share of S&P 500 stocks closing above 200-day moving averages fell as low as 38% last week.

A market is generally considered healthier when more stocks are rising together, and history shows that broader rallies are typically more sustainable.

In contrast, limited breadth can often precede a downturn. S&P 500 returns over the next month, three months, half-year and year tend to be negative when fewer than 48% of stocks are trading above their average over the past 200 days, ac-

ording to an analysis by Adam Turnquist and Jeffrey Buchbinder of LPL Financial, based on data starting in 1991.

Lately, strategists have warned that narrowing breadth is masking investor anxiety. Money managers have dumped shares of companies operating in economically sensitive industries, sending stocks as varied as **Etsy, Boston Properties** and **Charles Schwab** each down more than 20% this year.

Instead, investors have piled into megacap tech stocks such as Alphabet and Nvidia, excited by the buzz surrounding artificial intelligence and bet-

**1.8%**

Rally in the S&P 500's equally weighted counterpart in 2023

That happened in September 2020, when a sudden reversal in tech shares pushed the S&P 500 down nearly 10% in three weeks.

On its own, narrowing breadth doesn't necessarily mean that a rally will end, said Altat Kassam, head of investment strategy and research for Europe, the Middle East and Africa at State Street Global Advisors.

"You have had rallies in the past that have surprised on very narrow breadth," he said. But, "the worry with a narrow rally is that when it turns, it turns very violently."

Some signs of market breadth have improved in the past few trading days. Tuesday's session saw gains across a swath of the market, with the S&P 500's energy, financials and industrials sectors among those that rose for the day.

The Russell 2000 index of small-cap stocks, meanwhile, jumped 2.7%, marking its second-best daily performance of this year.

Similar to the U.S., a few standouts are helping drive European markets higher, albeit largely in luxury rather than tech. These stocks include France-based luxury-goods companies **LVMH Moët Hennessy Louis Vuitton** and **Hermès**, which have gained 19% and 33% this year, respectively.



MARKETS

# S&P 500, Nasdaq Reach Highest Marks Since 2022

Broad-based benchmark closes less than 10 points below bull-market level

By HANNAH MIAO

U.S. stocks edged up as the S&P 500 and Nasdaq Composite each clinched closing highs for the year.

The broad stock-market benchmark gained 10.06 points, or 0.2%, to 4283.85, reaching its highest close since last August. The technology-heavy Nasdaq rose 46.99 points, or 0.4% to 13276.42, its highest level since April 2022. The Dow Jones Industrial Average ticked up 10.42 points, or less than 0.1%, to 33573.28.

**TUESDAY'S MARKETS**

Stocks have rebounded recently, with the S&P 500 within striking distance of exiting from its longest bear market since the 1940s. The broad index finished less than 10 points shy of entering a new bull market, which would represent a 20% jump from its recent low set in October. The rally has been powered primarily by a slim group of megacap technology stocks.

Apple, the most heavily weighted stock in the S&P 500, is up 38% this year, while Nvidia has gained 165% as investors flock to artificial-intelligence plays.

"A lot of people, like us, are assessing the extent to which tech has led the broader rally and trying to see where we go from here," said Scott Duba, chief investment officer and managing director of wealth management at Prime Capital Investment Advisors.

The major U.S. stock indexes wavered between small gains and losses throughout the session, reflecting muted trading action.

The stock market's measure of volatility continued to drop. The Cboe Volatility Index, or VIX, tracks the price of options often used as insurance against market declines. Also known as Wall Street's fear gauge, the VIX traded below 14 on Tuesday, reaching its lowest intraday level since February 2020.

"People are probably taking a bit of a pause ahead of the Fed meeting," Duba said.

The Federal Reserve is set to convene next week to discuss monetary policy and issue its next interest-rate decision. Federal-funds futures,

used by traders to wager on the course of interest rates, reflected bets that the central bank would hold its target rate at 5% to 5.25% at the June policy meeting.

Investors are also awaiting the May consumer-price index next week for the latest insights into the course of inflation, which could influence whether the Fed might raise, hold or cut interest rates in future meetings.

Goldman Sachs Group lowered its expectations for an imminent U.S. recession, citing the resolution of the debt-ceiling standoff and a more modest impact from stress in the banking sector.

"You've got a situation where people are pricing out a recession and the growth side of the equation is looking a little better, but we've had a big unwind of Fed rate-cut expectations for this year," said Phillip Colmar, global strategist and partner at MRB Partners.

Financial stocks led the market, with shares of regional banks recovering some losses from the spring's sell-off. The KBW Nasdaq Regional Banking Index rose about 5%. Comerica, Fifth Third and Zions were among the top gain-

ers in the sector.

Shares of Coinbase dropped 12% after the Securities and Exchange Commission sued the crypto company for allegedly violating securities law.

In the bond market, the benchmark 10-year U.S. Treasury yield ticked up to 3.699% from 3.691% Monday.

Oil prices eased, reversing the gains that came after Saudi Arabia said it would slash oil production by 1 million barrels a day. Brent crude fell 0.5% to \$76.29 a barrel.

Overseas, Europe's Stoxx 600 rose 0.4%. Early Wednesday, Japan's Nikkei 225 was down 1.4% and Hong Kong's Hang Seng Index was up 1.1%. S&P 500 futures were flat.

**AUCTION RESULTS**

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

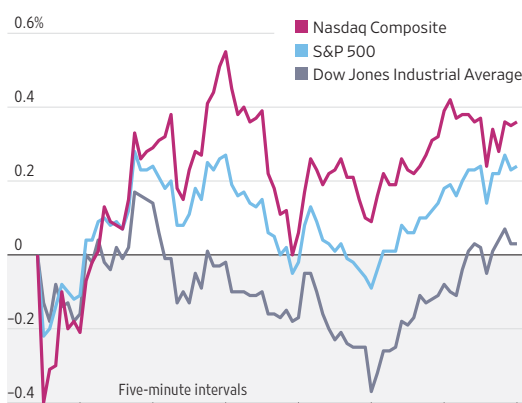
	13-Week	26-Week
Applications	\$207,762,049,300	\$184,829,579,600
Accepted bids	\$68,317,673,900	\$60,961,058,200
" noncomp	\$2,046,864,200	\$2,023,968,100
" foreign noncomp	\$2,000,000,000	\$2,000,000,000
Auction price (rate)	98.680500 (5.220%)	97.345833 (5.250%)
	5.378%	5.483%
	58.07%	0.74%
Bids at clearing yield accepted	912796YH6	912797F19

Both issues are dated June 8, 2023. The 13-week bills mature on Sept. 7, 2023; the 26-week bills mature on Dec. 7, 2023.



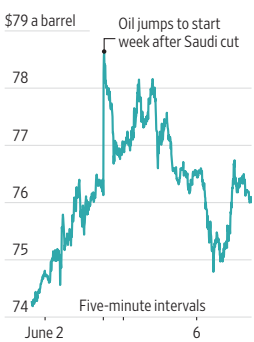
Nvidia has gained 165% as investors flock to AI plays.

**Index performance on Tuesday**



Source: FactSet

**Brent crude-oil futures price**



Note: Most active contract Source: FactSet

## Oil Prices Fall on Expected Weak Demand

By WILL HORNER

Oil prices slid Tuesday, erasing gains that followed a Saudi plan to slash output, as fears about weak global demand weighed expectations of a supply shortfall.

Brent crude, the international oil benchmark, slid 0.5% to \$76.29 a barrel, while West Texas Intermediate, a gauge of U.S. oil prices, fell 0.6% to

\$71.74 a barrel.

Oil prices rallied modestly in the 24 hours after Sunday's meeting of the Organization of the Petroleum Exporting Countries and their allies, known collectively as OPEC+. At the meeting, Saudi Arabia pledged to unilaterally slash output by 1 million barrels a day, around a tenth of its production.

The oil-price slide will come as a blow to Saudi Arabia and its energy minister,

0.5%

Tuesday's drop in Brent crude, the international oil benchmark

Abdulaziz bin Salman.

Analysts say the Gulf kingdom needs an oil price of around \$80 a barrel to balance its budget and fund a swathe

of large building projects.

Most analysts, including OPEC's own researchers, had expected a strong rebound in Chinese oil demand this year. That was seen as likely to sharply tighten the oil market and drive prices higher. But Chinese demand has been slower to materialize than expected.

"Until we see positive economic data out of China, you can be dreaming about higher oil prices but I don't think you

are going to see higher oil prices," said Homayoun Falakshahi, senior oil analyst at Kpler.

The Energy Information Administration on Tuesday raised its price forecast for Brent crude by \$1 a barrel to an average of \$79 a barrel for the second half of this year. For 2024, it raised its forecast by \$9 a barrel to an average of \$84 a barrel.

—Bob Henderson contributed to this article.

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# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

## Who Wants to Be Subway's Hero?

The largest U.S. restaurant chain needs to find an alluring price for selling itself to private equity

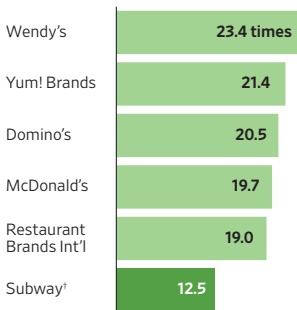
This could be Wall Street's equivalent of the \$5 footlong.

Subway, the privately held sandwich chain that has more U.S. locations than McDonald's, is for sale. Forsaking an initial public offering or strategic tie-up, its owners are close to wrapping up what could be a massive private-equity deal worth a hoped-for \$10 billion.

Restaurants used to be a popular leveraged-buyout target but, as with so much else, the Federal Reserve's rate increases and consumer caution in the face of high inflation dulled investors' appetite. Even during boom times, Subway would be a mouthful. The next-biggest restaurant LBO, when 3G Capital bought Burger King from three private-equity firms in 2010, was worth less than \$4 billion. The last year with more than a billion dollars in total U.S. restaurant private-equity deal value was 2019, according to Dealogic, and the largest U.S. restaurant strategic acquisition of recent years was Arby's owner Inspire Brands' \$8.8 billion purchase of Dunkin' Brands Group, excluding debt.

Though Subway is too big for any single private-equity buyer to swallow, sharing with others who like the ingredients could leave everyone

### Enterprise value to 2022 earnings\*



\*Before interest, tax, depreciation and amortization  
†Estimated  
Sources: FactSet; WSJ estimate for Subway

satisfied. The reason for the discount isn't just the deal's size but the nasty aftertaste of Subway's boom years.

Started in 1965 by Fred DeLuca with a \$1,000 investment from family friend Peter Buck, Subway expanded what would become a completely franchised chain, in part by using "development agents" who owned stores and supervised growth in entire regions. Some say they had ulterior motives for allowing too many stores and snapping up good locations for themselves. Subway owners often have one or two eateries with fairly low revenue and startup costs, in effect "buying themselves a job," according to one person familiar with the business model. The chain drew criticism for allowing too many stores in close proximity.

In 2015, when DeLuca died, Subway had about 44,000 restaurants and he had recently predicted it would grow to 50,000 by 2017. DeLuca's sister, Suzanne Greco, took over as chief executive between January 2015 and June 2018, and floundered. But the appointment in 2019 of CEO John Chidsey has begun to have dramatic results while making individual stores more profitable.

The former Burger King boss cut the number of restaurants to "nearly 37,000" and switched to a more traditional model for directly managing franchisees. The results seem good with a 9.2% rise in same-store sales last year and very rapid uptake of digital orders. Thousands of restaurants are being remodeled and its new "Subway Series" lineup is proving popular.

Had Chidsey started a year or two earlier, those results and last year's friendlier fundraising environment might have been enough to fetch DeLuca's and Buck's heirs a higher price. Now it seems waiting another year or two and opting for an IPO might have been wise.

Subway still has financially weak franchisees and a promotion it



Mike Golic and Mike Greenberg of ESPN in a 2013 footlong promotion.

hasn't run for years, the \$5 footlong. Being defined by cheapness can be a curse. The same-store-sales growth Chidsey achieved is encouraging but hardly world-class in an era of menu-price inflation and probably is flattered by the fact that many of its weaker restaurants closed. Last year McDonald's had global comparable sales growth of 10.9%.

A \$10 billion price tag looks enticing compared with publicly listed quick-serve chains given a lack of existing debt and an estimated \$800 million in earnings before interest, tax, depreciation and amortization last year. Restaurant Brands International fetches about 19 times trailing Ebitda—50% more. With JPMorgan Chase reportedly assembling a \$5 billion financing package, a \$10 billion deal would have the sort of multiples typical of private-equity buyouts being signed

in 2021—a price of about 12 or 13 times Ebitda and debt of 6 to 6.5 times Ebitda. High and rising interest rates and a wobbly consumer leave less margin for error today. If Ebitda were to fall to \$600 million in a recession and interest rates rise to 12% when the debt is refinanced, there would be no extra cash flow left for anything else.

But what back-of-the-envelope math fails to capture is how confident potential buyers might be that Chidsey is still in the intermediate stages of transforming Subway and making it more profitable. It ignores what has been a growth accelerator for a lot of American quick-serve brands—signing deals with deep-pocketed foreign partners who can ramp up stores abroad. Subway is late to the private-equity party, but it has all the markings of an express train.

—Spencer Jakab

## Apple Faces New Reality Check

AR headset is pricey gamble for a company that needs a hit

Apple's augmented-reality device is finally real. The company has the rest of the year to give consumers a real reason to spend nearly \$3,500 on it.

Apple used the opening keynote of its Worldwide Developers Conference on Monday to introduce the Vision Pro, an AR headset that allows for virtual-reality uses. The device was heavily rumored for months, and the design was mostly in line with reported leaks, resembling a pair of high-tech ski goggles tethered with a power cable to a battery pack. It will go on sale sometime early next year at a starting price of \$3,499.

That is more than three times the price of the Quest Pro headset sold by Meta Platforms after the Facebook parent slashed that price by one-third earlier this year after weak sales. Apple has never been shy about trying to command premium prices, and the Vision Pro certainly offers a more attractive design than previous VR and AR headsets.

It attempts to raise the game for user interface typical in such devices, as Apple's headset uses eye-tracking and gesture recognition instead of hand-held controllers. The Vision Pro uses Apple's M2 chip—the central processor that powers its latest Mac computers—along with another, new in-house chip-processing input from the several cameras and sensors embedded in the headset.

Still, it is an eye-popping price tag, especially for a technology that has so far failed to garner more than a niche audience mostly comprised of gamers. That leaves Apple with the same problem faced by Meta, Sony, Microsoft and other major technology players that have tried to crack the code for making AR/VR devices mainstream. Some cool VR games haven't been enough to get the videogaming market to buy into the technology. And even a company running social networks with more than one-third of the Earth's population checking in daily hasn't gotten the masses to buy into its "metaverse" dream.

Meta's "Horizon Worlds" VR app had just over 200,000 users as of February before the company decided to open it up to teenagers as young as 13—over the objections of lawmakers and child-health experts, according to The Wall Street Journal.

Apple, the world's most valuable company with a market capitalization approaching \$3 trillion, can't afford to just make a niche gaming device. The Vision Pro represents the company's first new device platform since the first Apple Watch went on sale eight years ago.

Most of Apple's business is tied to hardware products such as the iPhone, iPad and Mac computers that inhabit mature markets that users are refreshing less frequently as prices rise. Apple's revenue is expected to slip 3% in the current fiscal year ending in September and to rise only in the mid-single-digit range for the next two years, according to analysts polled by FactSet.

Yet investors have high hopes; Apple's shares had jumped 39% since the start of the year before the developers' conference—the stock's biggest run in that period since 2012. The company could really use a new hit.

Apple will need a killer app to even give the Vision Pro a chance of being that hit. This explains why the company is pushing the device hard to its developer community; one-third of its two-hour keynote on Monday was devoted to the Vision Pro. It explains the long lead time Apple is giving the device for going on sale, similar to the eight months that elapsed between the announcement of the first Apple Watch and its actual launch.

The watch eventually became a successful product, generating nearly \$18 billion in revenue last year, according to consensus estimates from Visible Alpha. But that took a while to build up, and it is an unobtrusive device with clear selling points in healthcare monitoring and exercise tracking. A face-mounted computer cabled to a fanny pack will be Apple's toughest sale yet.

—Dan Gallagher

## SEC Sets Off Fight for Crypto's Future

If the Securities and Exchange Commission is successful in its complaint against Coinbase Global, a swath of the crypto industry might have to change how it operates.

Despite the wide-ranging complaint filed on Tuesday, Coinbase shares fell 12% on the day, which is a large but not outside move for the relatively volatile stock. It is up more than 45% year-to-date in 2023. There are many reasons investors might have backed the shares this year, like the collapse of some key competitors, a resurgence in the price of bitcoin and the growth of revenue from sources like interest income. Yet buying into the company now would be speculating that it can successfully defend itself in court—or that the laws can change faster than a regulator can act.

There would be no easy fix should the SEC's arguments prevail in court. Its complaint goes far beyond arguing the exchange is trading digital assets that should be registered as securities. It alleges Coinbase should be registered with the SEC as an exchange, broker-dealer and clearing agency. It alleges Coinbase's staking program—in which customers can buy crypto and earn rewards when that crypto is put to use on a blockchain—should have been a registered offering.

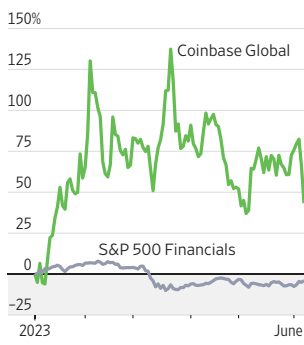
Even if digital assets deemed to be securities were to register with the SEC, that wouldn't resolve the

situation. Plus, many in the crypto community argue it isn't feasible to register many of these assets, with standard registration protocols not incorporating some of their unique aspects. Coinbase argued in a recent letter to the SEC that core staking services don't constitute an investment of money, and that there isn't a current workable path to registration for such services.

As Coinbase laid out in previous statements, including a petition for rule making to the SEC, many things about crypto wouldn't work were the business required to move, wholesale, into the existing regulatory framework. Among the issues is the direct access that customers have into the exchange, which would in a regulated exchange only be possible through a broker-dealer. Coinbase noted issues such as how blockchains can't be used for real-time settlement of securities under current rules; and side-by-side trading of securities and commodities such as bitcoin doesn't necessarily fit under current rules.

Coinbase wrote in its 2022 petition for rule making to the SEC that it would consider trading or facilitating trading in digital-asset securities through its broker-dealer subsidiaries. But only "once rules are in place that can accommodate the technological manner in which

### Stock-price and index performance, year to date



Source: FactSet

digital asset securities would be offered, sold, traded, custodied, and cleared," the company wrote.

One possibly key detail from the SEC's complaint is that Coinbase Wallet isn't exempt from this. This wallet is separate from the trading platform that Coinbase offers. In theory, it is a way for customers to essentially take all of their trading and custody into their own hands. The customers hold the keys to their crypto, and they trade through other venues or exchanges in the "decentralized finance" ecosystem.

Yet the SEC's complaint argues Coinbase "has operated as an unregistered broker through" Coin-

base Wallet, which the SEC describes as a tool that "routes orders through third-party crypto-asset-trading platforms to access liquidity outside the Coinbase Platform." It argues a digital asset it says is a security, Nexo, was available to Coinbase customers only through Coinbase Wallet.

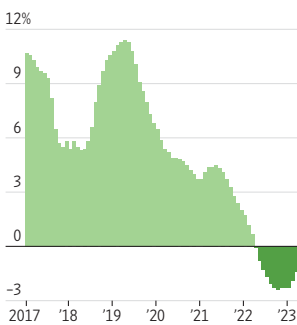
Coinbase hasn't settled with the SEC, as is sometimes the case when complaints are announced. The company said in a statement, attributed to Coinbase Chief Legal Officer and General Counsel Paul Grewal, that it will "continue to operate our business as usual," and the "solution is legislation that allows fair rules for the road to be developed transparently and applied equally, not litigation." It said Coinbase had a "demonstrated commitment to compliance."

Already the SEC has had to defend its decision not to allow the Grayscale Bitcoin Trust to convert to an exchange-traded fund in front of the U.S. Court of Appeals for the District of Columbia Circuit, with the outcome still unclear. What should be clear is that this is a major challenge to the crypto business, not just something that narrows it at the edges or is aimed at a rogue actor. This is a fight that has been brewing for years. At least now it has begun in earnest.

—Telis Demos

## Don't Bet on Big Changes in China Housing

### China's new-home prices, change from the previous year



Note: Average prices across 70 Chinese cities  
Source: Wind

Hopes of more state support for China's housing market drove developers' stocks higher recently. But investors shouldn't expect a drastic change of fortune for the sector.

The Hang Seng Properties index—tracking the stocks of real-estate developers listed in Hong Kong—rose 7.5% in the past three trading days. Bloomberg reported Friday that Beijing is considering a basket of policies to support the market.

The chatter about policy easing comes as China's housing-market recovery is showing signs of fizzling. Sales at the top 100 Chinese developers rose 6.7% in value terms year-over-year in May, compared with a 31.6% rise in April, according to the China Real Estate Information Corp.

The relaxation of China's zero-Covid policies in late 2022 sparked a market rebound this year. But putting that latest May number into perspective, developers only sold around a third of the floor space they did in May 2021, according to Nomura. So it makes sense that the government would want to roll out more support for the sector. But as Nomura's economists put it in their report, "it might be wrong to expect a fast, comprehensive, cure-all package." China's economic recovery has been uneven from the beginning and is starting to look even more lukewarm. High youth unemployment could inhibit young people's ability to jump into the housing market.

And sellers need to rebuild trust

in the market—a legacy of all the sold but uncompleted apartments in recent years. Contracted sales in the first five months of 2023 for state-owned developers grew 40% year-over-year, according to Citi. But such sales at private developers fell 24%, reflecting persistent worries about their stability. Among the top 100 developers, state-owned companies have 58% of the market, compared with 32% in 2019, according to Citi.

Given the importance of the housing market to the economy, more help will almost certainly be coming. But with state firms in control of the market, demographic headwinds, and damage to buyers' confidence, don't expect a return to the good old days anytime soon.

—Jacky Wong



# CYBERSECURITY

THE WALL STREET JOURNAL.

Wednesday, June 7, 2023 | R1



JON KRKAUSE

## Your Passwords Have Been Stolen. Now What?

BY DALVIN BROWN

Discovering that even one password has been compromised can be unsettling. But what's the game plan if you've used that password on dozens of sites?

**I**N THE PAST, we all had favorite passwords we'd use for all kinds of websites and apps, a set of easy-to-remember phrases, because who can keep track of so many? The bad news is, those passwords have all probably leaked in data breaches. And if hackers have the password for one site, they can try it on others to see if you reused it.

So how do you know when your passwords have been breached, and what do you do about it?

Increasingly, app and service providers are providing tools for informing users about compromised login credentials. In May, Google said it would start *Please turn to page R4*

## Why Companies Shouldn't Try to Catch Employees With Fake Phishing Emails

**W**E'VE ALL seen it: that unexpected email with an attachment or link to something important. Except the email isn't actually from who it says it is; instead, it is the IT department sending a fake phishing message to see if you will click on it. Real phishing messages can be dangerous to companies, leading to millions of dollars in losses and damages. Designed to trick people into downloading malware or divulging sensitive information,

They can create stress and distrust among employees—without much benefit

BY RICK WASH

these scams are on the rise: In 2021, the FBI received more than 300,000 complaints about phishing attacks, up more than 30% from the year before.

To fight the problem, many corporate IT security teams use mock phishing campaigns (also called phishing simulations) in which they send deceptive emails to employees

to gauge how many will take the bait. The goal is to educate and train employees to detect and resist phishing, and help IT security teams measure how vulnerable their organizations are to such attacks.

But recent research suggests these phishing simulations can do more harm than good—angering employees without significantly improving an organization's de- *Please turn to the next page*

## Inside

### HELP FOR HACKERS

AI tools, by mimicking individuals' writing styles, can make it harder to detect phishing **R2**



Scan this code to see a video on whether new AI voice and video tools can fool your family, or bank.

## Debate

Should software companies be held liable for security flaws? Two experts face off **R6**

### TAKE OUR QUIZ

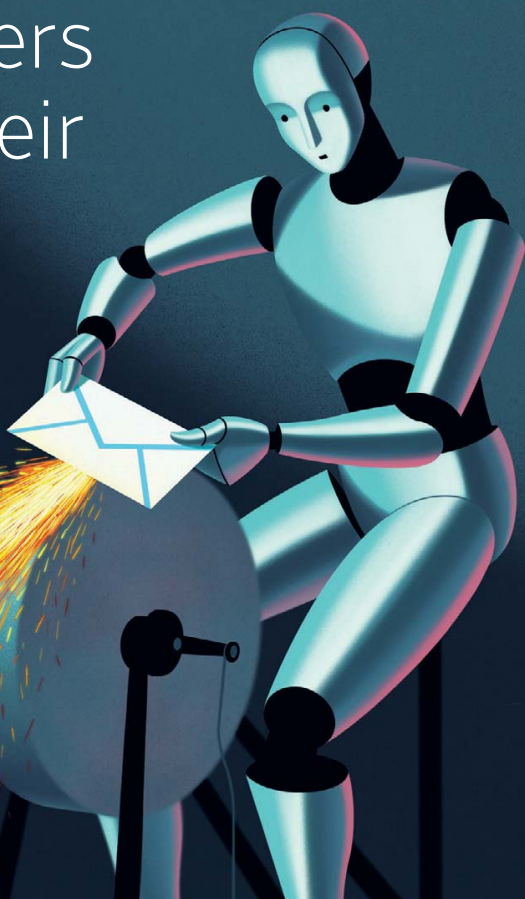
How much do you know about phishing? **R7**





## JOURNAL REPORT | CYBERSECURITY

# How Hackers Can Up Their Game by Using ChatGPT



Artificial intelligence, by mimicking the writing style of individuals, can make cyberattacks much harder to detect

BY CHERYL WINOKUR MUNK

**C**ONSUMERS, beware: AI chatbots like ChatGPT are likely to drive an increase in the use and effectiveness of online fraud tools such as phishing and spear-phishing messages.

In fact, it could already be happening. Phishing attacks around the world grew almost 50% in 2022 from a year earlier, according to **Zscaler**, a cloud-security provider. And, some experts say, artificial-intelligence

software that makes phishing messages sound more believable are part of the problem. AI reduces or eliminates language barriers and grammatical mistakes, helping scammers impersonate a target's colleagues, friends or relatives.

"This new era is going to be worse than what we had before," says Meredith Broussard, research director at the New York University Alliance for Public Interest Technology. "And what we had before was really, really bad."

## High stakes

AI chatbots have exploded in popularity, with perhaps the

best-known being ChatGPT, developed by the AI-research company OpenAI, a strategic partner of Microsoft. But dozens of chatbots, using what are referred to as large language models, are becoming more widely available and can closely mimic human communication based on data they amass. These models can be used for many purposes, such as helping office workers create routine memos more quickly. But they can also be used by criminals—to defraud victims, for instance, or to spread malicious viruses.

Telltale signs of a phishing attack have long included mistakes in grammar or spelling. But AI can give a phishing attack more credibility—and reach—not just because of its ability to generate fluent, grammatical messages in many languages, but also because of its ability to mimic the

speaking or writing styles of individuals.

"The whole point with large language models is their ability to emulate what humans sound like," says Etay Maor, senior director of security strategy at Cato Networks, a cloud networking and security provider.

Thus, given the opportunity to learn the style in which a certain person writes emails and texts, Maor says, an AI program can be used to mimic communications from a company executive.

"It's all about trust, and if I can make you think I'm one of you, you're going to begin to do things with more trust and less skepticism," says Roger Grimes, a computer-security professional with KnowBe4, a security-awareness training and simulated-phishing platform.

Using AI, Grimes says, criminals can quickly determine industry-specific terms that give them more ability to target companies such as hospitals, banks and fintech.

## Targeted campaigns

AI's usefulness in phishing and spear-phishing attacks doesn't stop with its ability to mimic authentic human communication. The analytic skills of machine learning can also be useful in determining who best to target in an organization and how exactly to attack them.

Sean McNee, vice president of research and data at DomainTools, an internet intelligence company, offers a hypothetical example. Say an accountant at a company innocently posts on social media about his frustrations with a recent audit. AI could determine the accountant's peers, his company's reporting structure and who else at the company might be most susceptible to an attack. The attacker then could create a spear-phishing email purporting to be from the chief financial officer referring to a discrepancy in the audit and asking the recipient to open an attached spreadsheet that con-

tains a virus.

Ramayya Krishnan, dean of Carnegie Mellon University's Heinz College, recommends being proactive to protect against such attacks.

First, before acting on something, he says, people should always verify the legitimacy of the request through independent means. This means before clicking on a link or sending money, the recipient should call the individual through a familiar phone number or walk into the person's office to confirm the request, Krishnan says.

Maintain a healthy dose of skepticism for everything you receive, Maor says. Ask yourself, why is my bank emailing me? Why is there a sense of urgency? Why is there an attachment to click on? It's also advisable to hover over a link before clicking to see if it leads to an expected URL. "If you have some reason to think something is amiss, don't click on it," Maor says.

## Other guardrails

Strong regulation of AI could also help, says Broussard, who is also an associate professor at the Arthur L. Carter Journalism Institute of New York University.

AI itself should also be enlisted to help identify malicious content with its origins in AI, says Dave Ahn, chief architect at Centripetal, a cybersecurity company. But first the models for doing so will have to evolve and the data will have to improve. Data on successful AI-based attacks will help cybersecurity experts train new models to identify malicious activity better, says Ahn.

Other possible security measures include giving users a way to distinguish their content as authentic. The use of hidden patterns known as "watermarks," for instance, can be buried in AI-generated texts to help identify whether the words are written by a human or computer, Krishnan says. But the applicability of these tools is limited.

Says Krishnan, "We're not near deploying them at scale where it's a solution to the bad-actor potential we have today."

*Cheryl Winokur Munk is a writer in West Orange, N.J. She can be reached at [reports@wsj.com](mailto:reports@wsj.com).*

## Stop Testing Workers With Fake Emails

*Continued from the prior page* fenses. Here is a closer look at some of the problems.

### They don't strengthen defenses

One reason IT departments conduct mock phishing campaigns is to train employees. When employees do something they aren't supposed to do, they feel bad. That creates a "teachable moment" when the employee becomes more receptive to learning how to avoid the same mistake in the future. Sure enough, research has found that people spend significantly more time reading training messages that are presented just after they have clicked on a simulated phishing email.

But when it comes to actually getting employees to resist future phishing attacks, these campaigns aren't that effective. While early research suggested that phishing simulations could reduce click rates on subsequent fake phishing emails by about 50%, more recent studies in more realistic settings and with larger groups found little to no improvement in click rates after mock campaigns.

I conducted a simulated phishing campaign involving almost 2,000 employees in one organization. My team compared the effectiveness of four different training messages presented after employees clicked on fake phishing emails. Specifically, we wanted to know whether people were less likely to click on subsequent phishing emails after getting one of the messages, versus not getting any training at all. Only one training message led to fewer clicks than no training; the other

three messages led to more clicks. And the message that led to an improvement only reduced the overall click rate by 1 to 2 percentage points.

Other studies have produced similar findings. A team of researchers working with the health industry, for example, found no difference between people who received training through one of these campaigns and people who didn't. And most recently, a research team from Germany found that any improvement was gone after four to six months.

### They aren't a good measure of risk

Many chief information security officers and IT security teams conduct phishing simulations to measure how vulnerable their employees are to such scams.

The problem is, the data collected from phishing simulations aren't always reliable. For starters, it can be difficult to determine whether all of the employees who took the bait thought the test message was genuine. One company I talked to reported seeing more people click on phishing links after they had received training. It was because the company made a new training video each month, and some employees intentionally clicked on phishing links hoping to see it.

The wording of the email message also can skew the results of a mock phishing campaign. Researchers like myself have found that the actual click rate depends more on how the message is written and the context of the message than on the company, the employees or the training they

previously received.

In my study, I did a lot of testing to try to make sure all four emails I sent were equally difficult to detect. Still, one of the four emails was about twice as difficult to detect as the other three. This particular email suggested that employees could get more email storage. More employees clicked on it because it was sent around the same time the company was actually upgrading email accounts.

So, if an organization chooses to test with an easy message, the click-through rate will look good. If it uses a particularly tricky or difficult message, the numbers will look bad. And it is often hard to know ahead of time which is which, because timing and context can make phishing emails more or less effective.

### They create stress and distrust

Many employees hate fake phishing emails.

They resent being tricked and feel that the simulations are unfair. In one phishing simulation that I ran, I received multiple complaints after the employees learned the emails they received weren't actually dangerous. When I talked to one of those employees, she said that she didn't like feeling that she was being tested.

Some employees also say the advice companies provide on how to fight phishing—like checking every link before clicking or never opening attachments—is impractical. Even security employees sometimes struggle with it. One IT employee I interviewed who tries to follow all suggested precautions says she has missed important emails because she deleted them. She also has gotten in trouble with her boss for not visiting links or being willing to open attachments she was sent.

The whole point of a mock phishing campaign is to scare employees who fall for it in the hopes they will be more careful in the future. But research shows that creating fear doesn't actually help people be more vigilant about cybersecurity or make it easier for them to distinguish good emails from bad ones. It just makes them more anxious.

As a result, the people subjected to these tests often experience unnecessary stress and learn to distrust their IT team, whose purpose is to protect the company and its employees.

Companies should consider the broader impacts of mock phishing campaigns before deciding to use them. There may be alternative approaches that don't lead to distrust and resentment.

*Rick Wash is an associate professor in the department of media and information at Michigan State University. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).*






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## JOURNAL REPORT | CYBERSECURITY

# What to Do About Stolen Passwords

Continued from page R1

alerting all Gmail users if their email addresses show up on the dark web where cybercriminals buy and sell personal information to commit scams. Last year, Apple updated its password security protocol to automatically identify common weaknesses with user passwords when they are stored in iCloud Keychain.

Password managers also offer similar tools, enabling users to check if their login details have been exposed. (Experts have long recommended password managers, which not only generate complicated unique passwords but also remember them for you. But password managers can and have been hacked.)

Generally, these tools use databases of leaked credentials and compare them—safely on the computer or mobile device—with the info stored by users. When there's a match, account providers will display a warning that prompts users to change their password.

However, therein lies a challenge. What often happens is that you get reports that say things like: “You have 87 leaked passwords.”

How to find compromised passwords—or better yet, find that your passwords haven't been compromised—using Apple's iCloud Keychain (below, top) and the 1Password app (below, bottom).

The notices are meant to be a convenience, but they can also be a nuisance: How do you go about cleaning up all of those bad passwords?

“It's too daunting for most people to get through,” says Chris Pierson, chief executive of BlackCloak, a Lake Mary, Fla.-based cybersecurity firm. “Having the information is great. But there's often no clear path to move forward. For the average consumer, it's too hard or there are too many steps.”

What's more, with people creating more online accounts each year, the threat of compromised passwords is growing.

Nearly 20% of passwords were compromised in North America in 2022, according to a report from the password-manager company Dashlane.

Many people choose to ignore these warnings, inadvertently placing themselves at a heightened risk of falling victim to cybercrime, security experts say. Some may intend to one day change their passwords, but never get to it.

Some leaked passwords deserve your immediate attention, while others can wait, cybersecurity experts say. Rank them in order of urgency. Then, work your way through the list over time, making sure to keep each password unique and turn on two-factor authentication where you can.

Here's a closer look at how to find out if your passwords have been compromised—and what your priorities should be once you get the bad news.

## Finding your compromised passwords

The most popular web platforms and password managers offer features that tell you if your

passwords are compromised on the dark web.

**iCloud Keychain:** On MacOS, open the Keychain Access application. On iOS, go to Settings > Passwords > Security Recommendations. Review the list of saved passwords. Keychain may display a warning symbol next to compromised passwords and offer an option to change them.

**Chrome:** Google's Password Checkup tool will show compromised, reused and weak passwords. Go to passwords.google.com, then Password Checkup > Check Passwords. The site will show you which passwords should be changed immediately, and take

you directly to the site.

**Microsoft Edge:** Go to Settings and more > Settings > Profiles > Passwords to turn on Password Monitor, which will check the passwords saved in the browser against known leaked passwords. If any passwords were leaked, a notification will appear, prompting you to change those passwords.

**Dashlane:** Dashlane runs security checks on all your saved information once daily and will automatically show you what has been compromised.

You can also kick-start a dark-web check yourself, where Dashlane scans hidden websites for usernames, passwords, credit cards, contact information, Social Security numbers and computer IP addresses. Go to the Dark Web Monitoring section of the app. Select “Start monitoring.” Dashlane will send a notification to your email and a pop-up on the app when any of your personal information shows up.

**1Password:** Navigate to the Watchtower or Security Audit section of 1Password, to scan your passwords against known breaches and vulnerabilities. The app will identify compromised, weak or reused passwords and suggest changing them.

## Which passwords to address, in phases

### Phase 1: Your most sensitive accounts

Give priority to passwords for such critical accounts as email, banks and financial institutions, and healthcare-related apps.

“Anything that affects money, your Google, Apple or Microsoft email accounts—scammers are going to try to go after those,” says Craig Lurey, chief technology officer at Keeper Security, a password-management company.

Someone who gains unauthorized access to your email address can find out a lot about your habits: where you work, where you've been, when you're traveling and how much you spend. They can send emails to contacts pretending they're you. They can lock you out of your email and even attempt to reset passwords associated with your other accounts.

Healthcare apps might show them your medical history and insurance details, which can be used to attempt fraudulent medical claims.

Banks use unusual tools to limit what unauthorized parties can do, but that doesn't mean scammers can't slip through the cracks.

“Those are the ac-

counts that can make you or your family have a really bad day,” Pierson says. “Almost everything else can wait.”

### Phase 2: Social media

Social-media accounts tend to store personal information, including your name, email address, phone number, location, photos and videos.

If your social-media account is compromised, hackers can misuse this information for identity theft, social-engineering attacks, or targeted phishing attempts. They can send fraudulent messages to contacts. Having someone impersonate you on social media might damage your reputation.

“Having your account taken over is horrible, and you don't want to have to rebuild the entire 10,000 people that follow you,” Pierson says.

### Phase 3: Where you shop

Shopping apps and other accounts that store credit-card information often contain additional personal and financial details, such as billing addresses, contact information and order history.

Hackers could attempt to make unauthorized purchases using your stored payment details. By changing your password, you can effectively block their access and minimize the risk of financial loss.

“There are a lot of fraud protections built in on sites to keep people from using your credit card, but it can still be annoying if someone logs into your Amazon account and changes your password and now you can't get in,” says Art Gilliland, chief executive of the IT security firm Delina.

### Phase 4: Everything else

Some accounts aren't as urgent, and you might not have to worry about changing them at all.

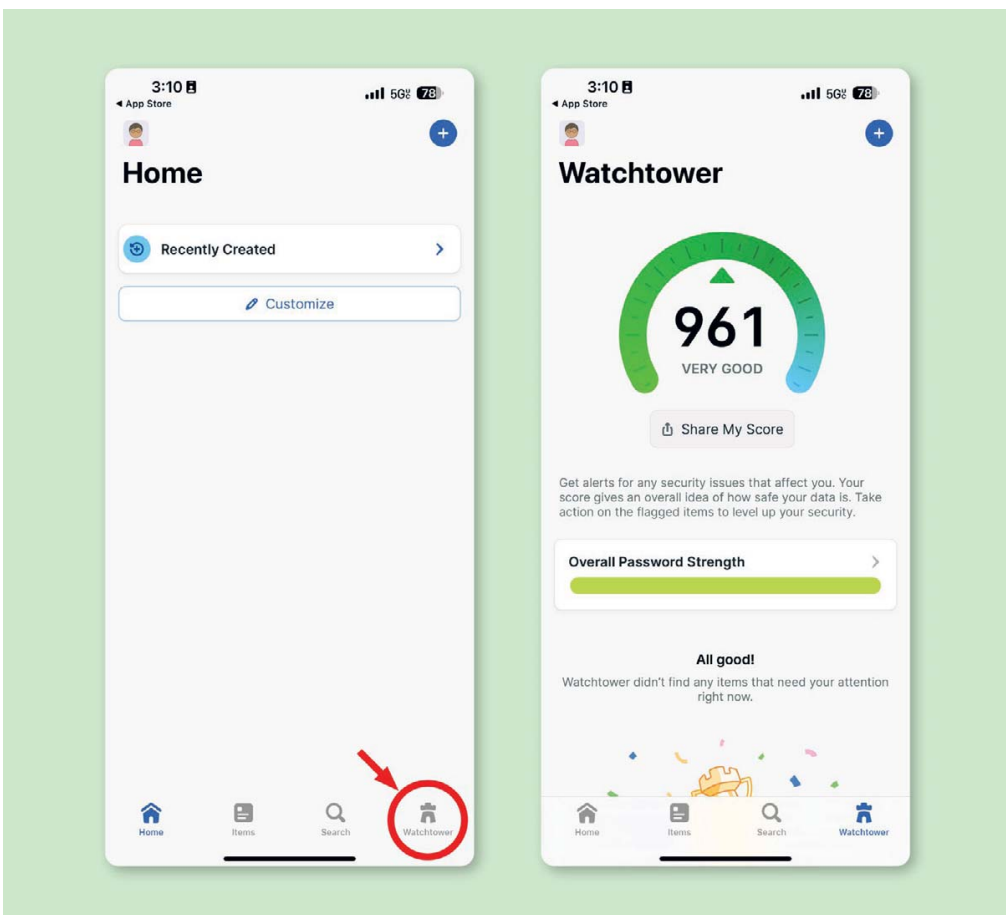
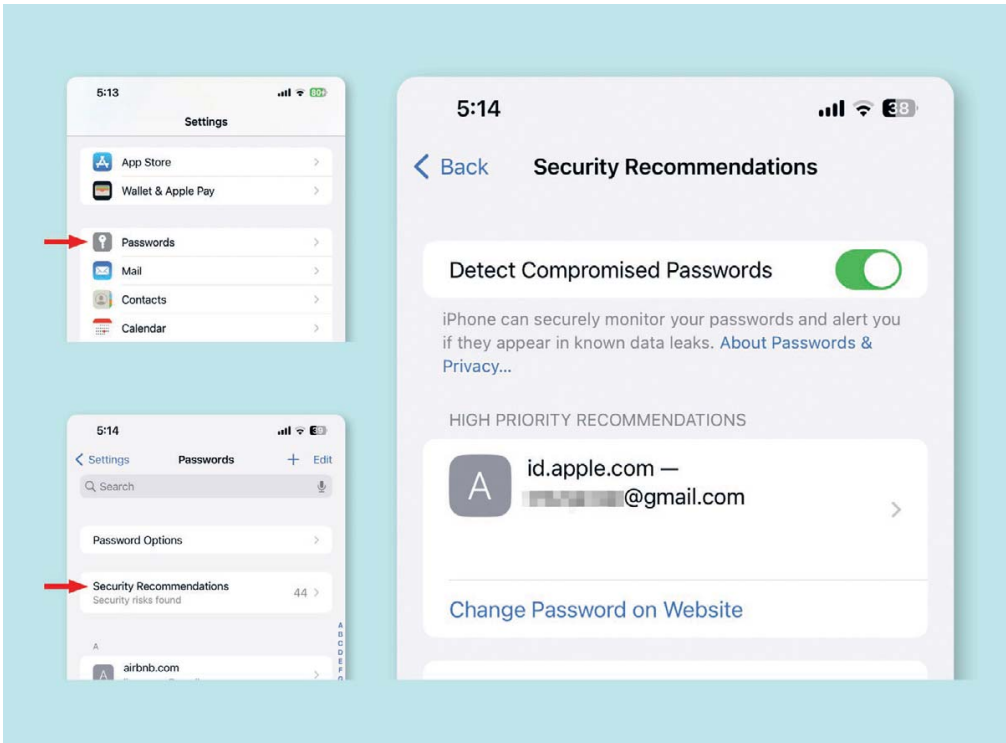
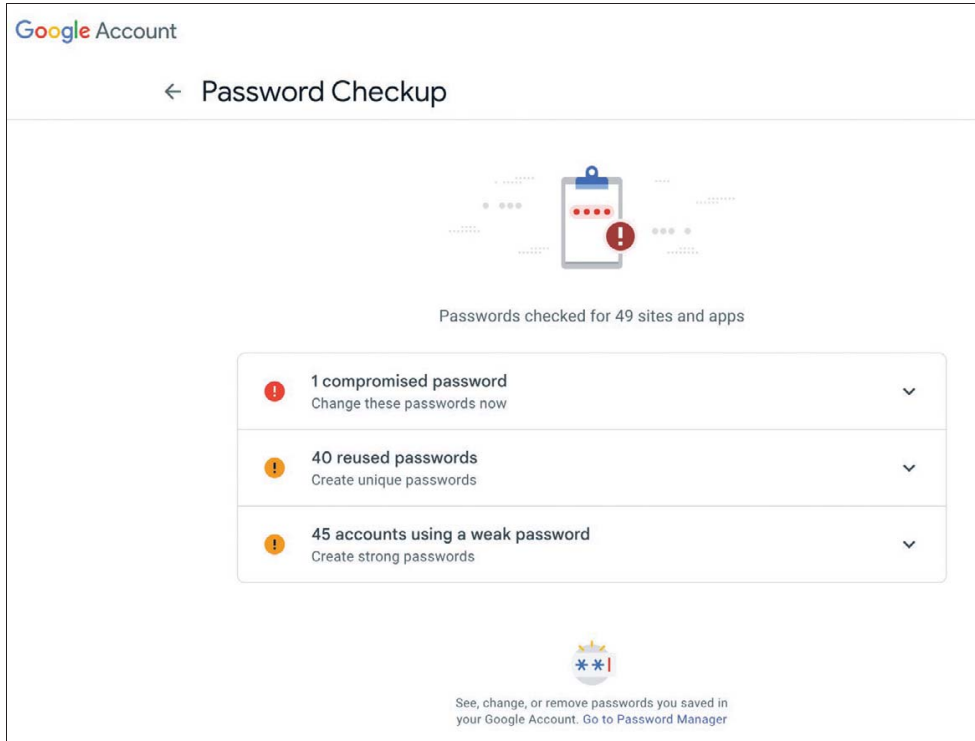
Accounts for nonfinancial web services that don't store sensitive information, such as online forums, news websites or non-transactional platforms, generally carry lower risk, cybersecurity experts say.

Compromised access to these accounts might spark privacy concerns, or an unauthorized person might misuse some account features, but the potential impact is less severe than with accounts that involve financial or personal data.

“Accounts where there's nothing they can steal, other than knowing you're reading content, you can care less about those,” Gilliland says.

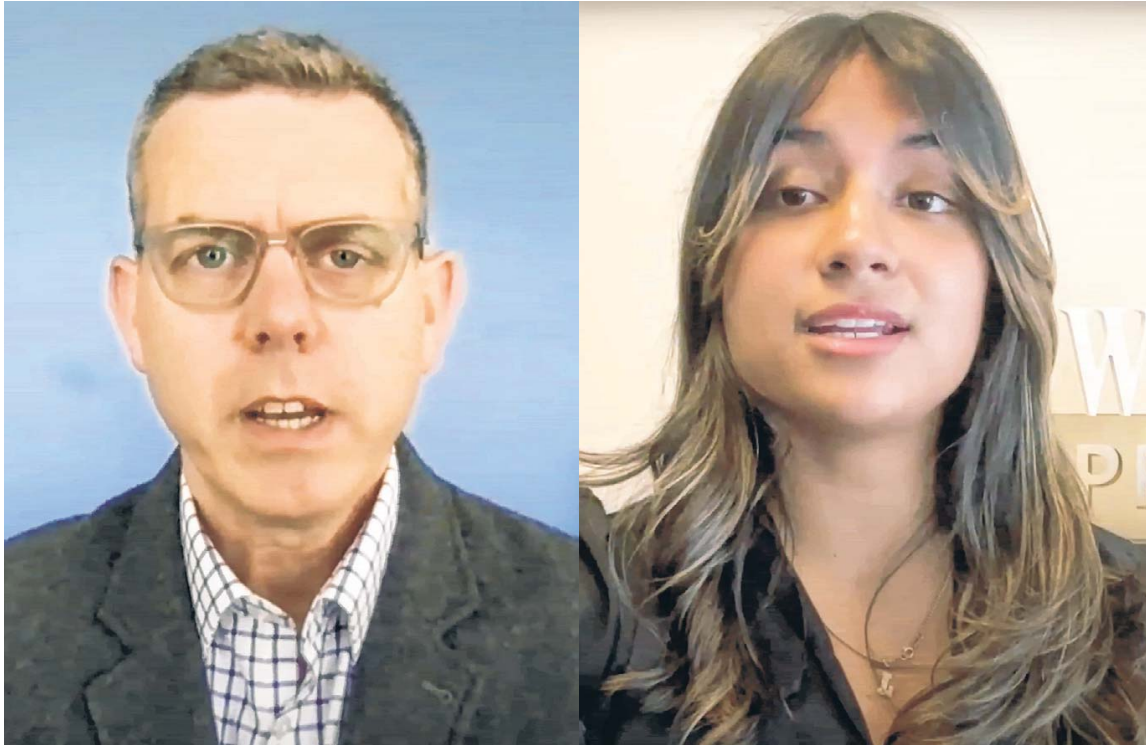
Loyalty or rewards program accounts might fall into this category because they generally don't store highly sensitive personal or financial information.

*Dalvin Brown covers personal technology for The Wall Street Journal. He can be reached at dalvin.brown@wsj.com. For more WSJ Technology analysis, reviews, advice and headlines, sign up for our weekly newsletter.*





## JOURNAL REPORT | CYBERSECURITY



# Are Company Boards Prepared to Deal With Cybersecurity? Our Survey Says...

Expertise on boards of directors depends very much on the industry and the company size

**ARE BOARDS** of directors capable of cybersecurity oversight?

That question has never been more important, as companies deal with a constant barrage of attacks, and as artificial intelligence promises to make those attacks more sophisticated than ever.

In addition, board preparedness to deal with cyberattacks will likely be in the spotlight like never before as new U.S. Securities and Exchange Commission regulations for cyber-risk management will be released in the coming months. Under the proposed rules, companies must disclose and report on current material cybersecurity incidents and provide periodic updates on previously disclosed incidents. Companies also will have to report on the policies and procedures implemented to identify and manage cybersecurity risks, and disclose information on which directors have cybersecurity expertise and how the board oversees cybersecurity risk.

A joint survey of 472 corporate board directors undertaken by WSJ Pro and the National Association of Corporate Directors suggests there are wide disparities in the preparedness of businesses to deal with cyberattacks.

Key data points were shared at the online WSJ Pro Cybersecurity Forum last week, in which WSJ Pro Research Director Rob Sloan and WSJ Pro Research Analyst Leslie Acebo shared their analyses. Edited excerpts follow:

## Expertise levels

• **ACEBO:** No one expects board directors to be technical experts or that the board has to be rooted in the detail of day-to-day operations. But the SEC's proposed rules state that boards will have to disclose which directors have expertise in cybersecurity and the nature of that expertise.

This means it won't be enough to simply claim

that the board includes cyber experts. The board will be expected to show evidence for its investors and the public. So we asked survey participants if the board they sit on includes a director with cyber expertise. Rob, what did we find?

• **SLOAN:** The results really surprised me. The majority of respondents said that they had a cyberexpert director on the board already. In fact, 76% said the board had at least one cyber expert and sometimes more; 19% said their board had three or more cyber experts among the directors. Almost 9 out of 10 consumer-goods and retail companies have an expert director, down to at least 2 out of 3 energy and utility companies.

If these results are

second set of data points, which look at the contribution of the cyberexpert director.

We asked respondents about the impact that the cyberexpert directors made to their board. In 62% of cases, the board's overall awareness of cyber risk shows significant improvement: The knowledge of cyberexpert directors was shared with other directors, which raises the overall awareness.

In 57% of cases, the board received better cyber-risk information from management, presumably because the cyberexpert director started asking questions or getting information from management that better fit their requirements.

Some 46% said the board's ability to oversee and manage cyber risk had greatly improved. In 30% of cases, the presence of a director with cyber expertise resulted in changes to management's approach to cybersecurity.

plain, to some extent, why general awareness of cyber risk hasn't improved significantly for all companies.

The rest of the boards simply allow the designated expert to make all of the decisions.

• **ACEBO:** Asked whether their board's readiness to deal with a cyber crisis

was basic, limited, intermediate, advanced or expert, 3 in 10 directors rated their board advanced or expert. Smaller companies are less prepared. Twice as many directors at large companies rated their board as expert or advanced compared with smaller companies.

And approximately three times as many directors at small companies rated the board's ability to handle a cyber crisis as basic or limited compared with larger companies.

larger companies.

• **SLOAN:** There is quite a bit of variation within industries.

We can see 45% of technology-company respondents rated their boards advanced or expert. They were the top performers, with consumer-goods and retail companies at 39%; financial services were slightly further behind at 34%.

Bottom performers here, again, energy and utility companies with 21%.

## Material incidents

• **SLOAN:** The last data is related to preparedness for material incidents. We asked public-company directors, "How clear is your

board on SEC reporting and disclosure requirements after a material cyber risk or incident?" The results, again, highlight the difference between larger, midsize and smaller companies.

• **ACEBO:** So, 95% of larger-company boards were clear on their reporting and disclosure requirements around material cyber risk or incident. But that figure dropped to 81% for midsize companies and 60% for smaller companies.

Industry and manufacturing, technology and financial-service companies scored the highest. Healthcare, energy and utility companies have the most work to do.

We also asked directors about the last time they conducted a cyber-themed tabletop exercise, a recognized way of preparing for incidents and finding gaps in response planning.

An expert I spoke to recommended that boards try to conduct an exercise at least once a year. But our results show that most businesses are falling short of that. Those businesses that have conducted a tabletop exercise in the past 12 months include 40% of large companies, 35% of midsize companies, and 25% of smaller companies.

Two-thirds of small businesses had never conducted a tabletop exercise about cyber, which is particularly worrying given how damaging and destructive cyberattacks can be.

Overall, only 7% said they ran exercises twice annually.

The SEC's proposed rules state that boards will have to disclose which directors have expertise in cybersecurity and the nature of that expertise.

close to reality, then companies are in really good shape. I think, though, that there may be an issue around the lack of clarity on what constitutes a cyberexpert director. As the saying goes, in the valley of the blind, the one-eyed man is king.

It may be that a director with no expertise overestimates the skills that his or her fellow board members have when, in fact, they may actually be equally lacking.

## Board impact

• **ACEBO:** Public-company boards have slightly better rates of expertise among board members than private companies. And as you might expect, larger companies are more likely to have expertise than smaller companies.

Let's move on to our

So overall, very positive results.

• **SLOAN:** Not everything was quite so positive though. Only 48% of respondents said that the cyberexpert director was able to contribute widely to all board discussions. That is one of the issues regularly put forward by experts, why recruiting a chief information-security officer isn't necessarily the answer for improving cyber oversight at the board level—because the cyber expert can sometimes be something of a one-trick pony.

Similarly troublesome, in almost 4 out of 10 cases, board members defer to the expert on matters overseeing cyber risk. This has the effect of reducing conversation overall around cybersecurity and risk, and it might ex-

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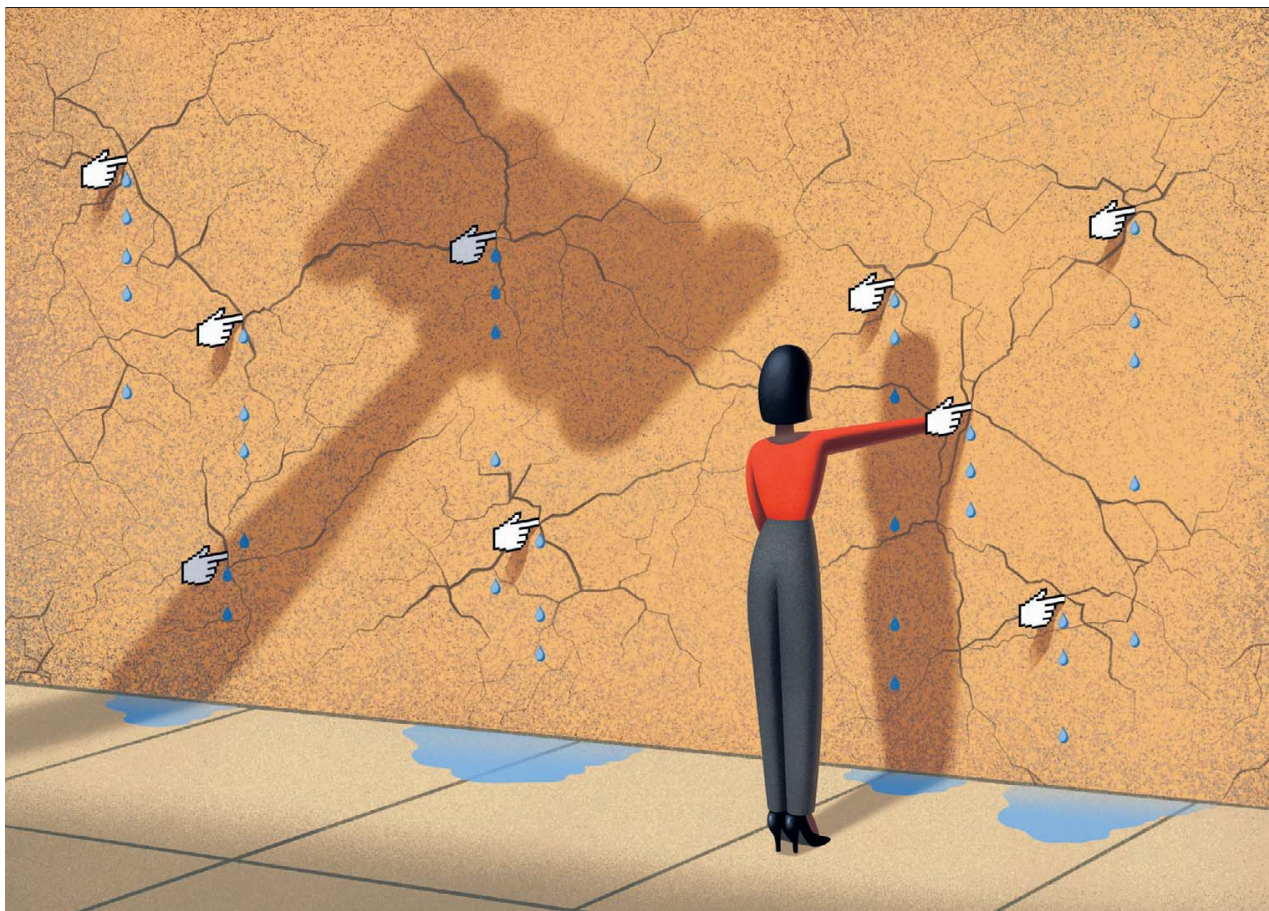
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## JOURNAL REPORT | CYBERSECURITY



Making them liable for cybersecurity flaws has some obvious appeal. Imposing costs of security failures on them presumably would increase their incentive to fix problems proactively. But this assumes lack of financial commitment is the reason for insecure software.

In fact, software companies already invest heavily in cybersecurity. Between 2015 and 2020, for example, Microsoft said it spent \$1 billion a year on cybersecurity, and in 2021 it committed to quadrupling its spending to \$20 billion over five years. In addition, major software companies have spent tens of millions of dollars on bug bounty programs that pay security researchers for pointing out software flaws hackers could potentially exploit.

Despite that spending, companies routinely discover and patch security vulnerabilities because modern software is incredibly complex. Not only do software developers write thousands of lines of code, but their applications interact with external software libraries and operating systems that involve millions of lines of code. These code bases constantly change as developers make updates, so even as companies fix old bugs, new ones emerge.

Yet critics argue that software companies should be treated like automakers, which are liable for defective vehicles. But the comparison isn't perfect. Cars and trucks need working door locks, but auto companies aren't liable if thieves find ways to break in and steal valuables. Moreover, automakers routinely issue recalls for software defects in their vehicles because, despite product-liability laws, it isn't easy to produce error-free code. Indeed, the reason software security is so hard is that attackers must only find one vulnerability, but those securing the product must find them all.

Human errors cause most data breaches. People make mistakes, and more liability won't change that. If it did, holding anyone who clicks on a phishing email or uses a weak password criminally responsible would solve many cybersecurity issues. Likewise, expecting programmers to produce perfect code is unreasonable and would discourage people from pursuing careers in cybersecurity.

That doesn't mean we should absolve businesses of sloppy security. But there is a misconception that companies don't face accountability for poor security. They do. Software companies risk enormous financial consequences for security failures. SolarWinds, for example, suffered reputational damage, hurting both its sales and stock price, after attackers exploited a vulnerability in its networking monitoring software.

Regulators also can file lawsuits against companies for security failures. The Federal Trade Commission has brought cases against D-Link, TRENDnet, and ASUS for insecure software in their internet-connected devices. More recently, the Justice Department launched its civil cyber-fraud initiative to obtain multimillion-dollar settlements from companies that sell the government insecure technology.

Imposing liability on software companies would likely do more harm than good. Companies would pass on those costs to customers, raising costs for everyone with no guarantee of better security. And faced with higher liability risks, companies would have an incentive to innovate less, such as by cutting features to shrink the code base and slowing down the software-development life cycle. Less innovation also would apply to advanced security features, such as multifactor authentication and quantum-proof encryption, which can involve complex code. Companies would have less incentive to protect their customers and more to protect themselves.

There are no silver bullets, but there are many viable options for government and industry to work together to improve cybersecurity. More cybersecurity training for software developers, systems administrators and other technical workers is necessary to build secure software, configure it correctly, and remediate vulnerabilities. Better software supply-chain security—such as including a software bill of materials that lists all the digital components in an application—will help security experts quickly track down vulnerabilities. And the government and industry should work together to audit and refine the security of widely used open-source software, as well as develop and test AI tools to identify security vulnerabilities in code.

While making companies liable for insecure software may sound good on paper, it wouldn't work in practice.

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## Should Software Companies Be Held Liable for Security Flaws?



BY CHRIS INGLIS



BY DANIEL CASTRO

**Does the software industry** need to do more to keep its products safe from hackers? • The Biden administration thinks so. As part of its national cybersecurity strategy released in March, it indicated support for legislation to hold software makers liable if they don't take reasonable steps to secure their products. • Software firms are financially motivated to get products to market quickly, not give priority to security, so market forces alone aren't always enough to keep critical systems safe, the strategy's supporters say. • Opponents counter that imposing liability on software makers for bugs and vulnerabilities would do more harm than good. They say the industry would simply pass on those costs to customers, and slow down the pace of innovation to protect itself. Chris Inglis, who served as the U.S. National Cyber Director from June 2021 to February 2023, makes the case for shifting more responsibility for cybersecurity onto software firms. Daniel Castro, vice president of the Information Technology and Innovation Foundation and director of ITIF's Center for Data Innovation, argues against it.

Any software liability solution must take into account the unique characteristics of the technology sector, where innovation remains a critical asset to improved performance. Liability therefore should focus on codifying and implementing best practices in secure code development, while avoiding one-size-fits-all requirements that would have varying effects across diverse product offerings.

Importantly, regulation and liability must be rigorously informed by the private sector that would bear it, and harmonized across various would-be regulators to ensure that it delivers expected benefits while imposing the lightest possible burden. Such a regime also would need to protect developers and manufacturers by ensuring that fulfilling a duty of care is a valid defense for breaches caused by human error or product misuse.

Some say any set security requirements will increase development time and costs for new software, resulting in higher retail prices. This is shortsighted. Safer cars cost more money until one considers the cost avoidance of accidents and breakdowns that would otherwise ensue. The same is true of safer software.

Concerns that software liability would stifle innovation also are overblown. The industry has proved again and again that it is capable of accommodating regulation and building society-rocking innovation. What's more, the government could grant exemptions for new innovations or small companies where innovation and experimentation is a critical driver of growth.

As software becomes more integrated into our lives, and diffused to more far-flung places, the potential consequences of cyberattacks will expand in equal measure. Establishing a basic duty of care will provide for a more dependable and accountable technology market.

*Chris Inglis served as the first Senate-confirmed U.S. National Cyber Director from June 2021 to February 2023. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).*

# YES

### Follow the Transportation-Industry Model

**Imagine if** buying and operating a car followed the model we currently employ to buy the computers and software essential to our daily lives. Responsibility for things like faulty air bags, seat belts and anti-lock brakes would fall to consumers rather than automakers, not to mention accountability for the design and operation of a safe and reliable highway transportation system.

This is, of course, an absurd notion, but it highlights the nonsensical approach that is the default model for today's cyber landscape, where end users shoulder more of the burden for cybersecurity than the industry that develops and makes the products. With technology becoming ever more central to our daily lives, and cyberattacks a constant and growing threat, we can no longer afford to allow safety and reliability to be a hit-or-miss priority for those who build our digital foundations.

Following a model that's been successful

in delivering physical safety for transportation systems, the U.S. national cybersecurity strategy released in March aims to use incentives and assignment of liability to "rebalance responsibility" in cyberspace toward those best-positioned and capable of shouldering it at-scale—developers and manufacturers themselves.

Despite a long history of incidents, the U.S. software industry isn't covered by any specific law guiding the safety and security of consumer technology. While some consumer-protection laws apply, they aren't tailored to the unique challenges presented by software—nor are their enforcement arms focused on safety and security. This has led to instances where tech companies have been slow to respond to security vulnerabilities, have released products with major flaws or have failed to provide adequate warnings about the risks associated with their products.

Indeed, a business model that puts a priority on innovation and speed to market rather than safety and security has yielded a whack-a-mole system where most of the effort to find and fix security flaws occurs *after* software has been shipped and customers put at risk. Imagine if automakers did little safety engineering but promised to fix any dangerous flaws users could discover.

Market forces remain the first, best route to agile and effective innovation in terms of basic security mechanisms, but when that fails the government needs to step in. One approach is to impose a formal "duty of care" obligation—similar to that in the auto industry—requiring software makers to adopt certain basic security-conscious practices when developing and updating their products.

# NO

### Software Companies Are Scapegoats

**Whenever there is** a data breach, ransomware attack or other cybersecurity incident, people want to find someone to blame. The obvious culprit is the attacker, often a cybercriminal or nation-state hacker. But since they often evade justice, it is easier to point the finger closer to home.

Software companies are one scapegoat.



# How Much Do You Know About Phishing? Take Our Quiz



Do you know how phishing got its name? Or the most commonly used password? Or what 'whaling' is?

BY DANIEL AKST

**I F YOU'VE SPENT** any time online in recent years, chances are that at some point you've been the target of "phishing," a scam that is relatively easy to perpetrate but difficult to guard against.

Phishing occurs when someone sends you a bogus communication, usually by email or text message, disguised as a missive from a legitimate source, such as a bank or government agency. Usually the sender is angling for information, a credit-card number or a transfer of funds. Sometimes there is an attachment containing malware, or a link where you can go to log in—which is to say, to have your password stolen.

Phishing grows and grows, demanding continual vigilance; billions of phishing emails are sent every day, some narrowly targeted and others broadcast widely. You have no doubt seen the con artists' bait dangling in your inbox. But how much do you really know about the subject? Take this quiz and find out.

**1. In a survey, what proportion of organizations said they had experienced at least one successful phishing attack in 2022?**

- A. 44% B. 64% C. 84% D. 99%

**2. The FBI's Internet Crime Complaint Center (known as IC3) recorded 300,497 phishing victims last year. How many were recorded in 2018?**

- A. 2,637 B. 26,379 C. 263,790 D. 2,637,900

**3. How did phishing get its name?**

- A. International hackers simply misspelled "fishing."  
B. Members of the band Phish were the first documented victims.  
C. It combines "phreaking," a term for the use of electronics to dodge

telephone charges, and "fishing."  
D. Digital con artists, fearing surveillance, avoided conventional spellings.

**4. We've defined phishing. What's vishing?**

- A. Infiltrating a computer via virtual private network  
B. Exploiting a virtual machine to penetrate whole networks  
C. Hiding malware instructions in voice over IP data  
D. The use of telephone voice messages in trying to pry loose private information

**5. The Anti-Phishing Working Group has launched an international awareness campaign. What is the effort's worldwide slogan?**

- A. Does It Pass The Smell Test?

- B. Stop. Think. Connect.  
C. Not Even a Nibble!  
D. Spotted Bait? Don't Bite.

**6. "Whaling" is another kind of phishing. What's that all about?**

- A. Phishing focused on email addresses containing the name "Ahab"  
B. Phishing by activists targeting whaling companies  
C. Phishing that aims to spear high-ranking executives, who might have access to confidential information of the utmost quantity and quality.  
D. Phishing that gets users to execute the "Jonah exploit," a large body of code that penetrates all corners of a user's system.

**7. According to cybersecurity firm Expel, what is the most popular thing for scammers to put in the subject line of phishing emails?**

- A. "Invoice attached"  
B. "Overdue notice"  
C. "Re: Request"  
D. They mostly leave the subject line blank

**8. Weak passwords can abet phishing by giving intruders easy access to contacts, private information and more. In the U.S., what is the most commonly used password?**

- A. guest C. password  
B. 123456 D. 12345

**9. Which of these is NOT a useful step to keep phishing hackers from exploiting ill-gotten login credentials?**

- A. Use the same strong password for all your online activities.  
B. Use two-factor authentication (such as having a code sent to your mobile phone).  
C. Refrain from clicking on unknown or dubious file attachments.  
D. When in doubt, phone the sender using a number you already have or that is publicly listed. Don't dial the number given in the email, because it might well be fraudulent.

**10. If you fall for a phishing scam, what is the worst thing you can do?**

- A. Disconnect the computer from your network until the problem is isolated or resolved.  
B. Notify any affected parties, including most urgently your IT department.  
C. Change any passwords that might have been compromised.  
D. Keep the whole thing secret and hope nobody finds out.

Daniel Akst is a writer in New York's Hudson Valley. Email reports@wsj.com.

## ANSWERS:

**1. C.** The survey is the 2023 State of the Phish report from cybersecurity firm Proofpoint. A Proofpoint spokeswoman, Jennifer Duffour, says the survey relied on the following definition: "A successful phishing attack is an email-based attack that manipulates the recipient into taking a risky action (e.g., clicking a bad link, downloading malware, providing credentials, executing a wire transfer, etc.)."

**2. B.** To the FBI, a "victim" is someone who filed a complaint, thus the data doesn't reflect phishing attacks that went unreported. But it does show a big increase in a short span. The IC3 was es-

tablished in 2000. The agency put known 2022 phishing losses at \$52,089,159, though some internet-security firms claim the figure is much higher.

**3. C.** As Heather Vescent and Nick Selby explain in their "Cyber Attack Survival Manual," the term "phishing" is a portmanteau for a version of fishing which entails "using electronic bait, hooking victims, and reeling them in." The ph, the authors write, "is a nod to the pre-internet practice of telephone-system hacking known as phone 'phreaking,' done by 'phreaks.'" Other sources suggest "phreaking" may itself be a combination of

"phone" and "freaking."

**4. D.** The v in vishing probably comes from "voice mail."

**5. B.** APWG is a nonprofit coalition of law enforcement, tech companies, financial firms, academics and others who work together to combat phishing.

**6. C.** In spear phishing, recipients are victimized through the use of background information about them, sometimes gleaned from social media, that can make a bogus email seem legitimate. In whale phishing, the same thing happens except the targets are top executives and officials. In such cases, perpetrators are after a potentially big haul, according to Hassan Zamir, an IT spe-

cialist at Dominican University near Chicago. In a chapter of the book "Cybersecurity for Information Professionals: Concepts and Applications," Zamir notes that spear phishing and whale phishing pose dangers on social media as well as via email.

**7. D.** Expel's quarterly threat reports find that the subject line is blank in well over half of cases. "Invoice" and "order confirmation" are popular, too, but used far less often. A blank subject line is "an immediate red flag," says Hiranya Mir, manager of Expel's anti-phishing service. Mir gives three reasons why miscreants leave the subject blank: First, it avoids any terms that might trigger email security software. Sec-

ond, a blank subject line is sometimes used for email sent merely "to confirm that the destination address is a reachable inbox." Attackers presumably save their creative energy for the malicious content that follows. And third, a blank subject "may spark curiosity for some people, prompting them to open the email and potentially interact with the content inside or reply to the email," says Mir.

**8. A.** NordPass, whose digital security products include a password-management tool, studies which passwords are most commonly used around the world. In the U.S., the most common passwords are listed above in order of frequency of use. The global version of the list isn't that

different; the top four are password, 123456, 123456789 and guest. Pro tip: Don't use these.

**9. A.** Use a different strong password for each website. Password managers such as Apple's Keychain can generate and remember these for you.

**10. D.** The Federal Trade Commission suggests you also forward phishing emails to the Anti-Phishing Working Group and report them to the FTC, though the large volume of phishing emails may make these suggestions impractical. More plausible is the FTC's suggestion that you "let the company or person that was impersonated know about the phishing scheme."





# What Companies Need to Know About New Cybersecurity Regulations

The SEC has proposed a bunch of new rules. But so have plenty of other government agencies.

**P**ROTECTING investors from cybersecurity harm is a priority for the U.S. Securities and Exchange Commission, which over the past year has issued a series of rules and proposals aimed at shoring up defenses at publicly traded companies, advisory firms and exchanges and clearinghouses, among others.

To talk about these new proposals, The Wall Street Journal's James Rundle interviewed Kristy Littman, who until last year was chief of the crypto assets and cyber unit at the SEC's enforcement division. She left the SEC to become a partner in the litigation group at Wilkie Farr & Gallagher, where she represents clients in regulatory-enforcement disputes and counsels clients on cybersecurity matters.

Edited excerpts of their discussion, which took place at the WSJ Pro Cybersecurity Forum, follow.

## Disclosure regime

• **WSJ:** There are a number of different rules that have come out of the SEC recently, plus an awful lot of cyber proposals covering everything from issuers to broker-dealers to central counterparty clearinghouses. What do companies need to know?

• **LITTMAN:** There is a lot to keep an eye out for. And it isn't just the SEC. Cybersecurity is an administration-wide priority right now, and there are a lot of other agencies promulgating rules, as well.

But specifically at the SEC, the first rule for Chair Gary Gensler was in February 2022. It was directed at investment advisers and investment companies, and it was going to impose policy and procedure requirements designed to address how these advisers and firms manage their cyber risk. The SEC did recently reopen the comment period on it, so given that development, I don't think we

should expect to see it adopted soon.

The next rule the SEC proposed was in March 2022. This one was directed at issuers, meaning publicly traded companies. What caught most people's attention was a requirement that a cybersecurity incident be disclosed to investors within four business days after the registrant determines that it has experienced a material cyber incident. So not after the incident itself, but four days after the registrant has determined that it has experienced a material cyber incident.

There also was some disclosure around governance that I think is important for people to be aware of because it said that companies would be required to disclose whether they had cybersecurity expertise on their boards. Directors don't grow on trees, and certainly directors with cybersecurity experience don't grow on trees. So that's an area for people to watch.

Then in March of this year, the SEC proposed a rule directed at market entities such as broker-dealers, exchanges and clearing agencies. It essentially imposes a whole slate of rules on them, including periodic assessments of their cyber risk, controls to minimize risk, systems monitoring. There also is a section devoted to incident response that requires them to monitor for it, detect it, mitigate any incidents, and respond and recover. It's really focused on operational resiliency.

• **WSJ:** What does this barrage of rule-making say to you about what the SEC is trying to achieve here?

• **LITTMAN:** The SEC, in many ways, is a disclosure regime. And so when you see them proposing rules relating to public companies, the ultimate goal is disclosure, with the idea being if you have had an incident or you have risks or you have risk controls in place, investors in your company need to know.

And if you are required to dis-

close to your investors how robust your systems are, how good your risk management and risk response is, whether you have appropriate expertise on your board, you're going to be more inclined to make sure that those areas of your cybersecurity program are up to speed.

I think the practical effect is that it will require some companies to enhance their cybersecurity systems.

## Disclosure divergence

• **WSJ:** Incident reporting is obviously a big part of what the SEC is doing here, but it also is something that other government agencies are pursuing, too. These other agencies have their own reporting rules, and they are different from what the SEC is proposing. Is there a risk of divergence

and procedures are already up to snuff, should be, because there's a good likelihood that some form of this is going to become adopted.

The other point I'll make is about hiring an expert, or retaining a director for your board who has cybersecurity expertise. There is way more demand than there is supply in this space. If that becomes part of the final rule that's adopted, you don't want to be the one scrambling to try to snatch up a director who has the appropriate cybersecurity expertise, because there's going to be a lot of competition.

The FTC and your local AGs are probably focused on consumer protection. What data do you have? Is it sufficiently private? Is it subject to breaches where it might be shared? Is it being used improperly against the people who are giving you this information?

That's a very different interest than what the SEC is serving, which isn't focused on consumers but rather the shareholders of the companies taking in the data.

In my experience, what companies try to do is comply with the

**'It's a complicated web of regulatory oversight when it comes to cybersecurity.'**

and multiple compliance regimes here for companies, or do you think there's likely to be some sort of harmonization in the future?

• **LITTMAN:** I'm sure that there will be attempts at harmonization. But there is still going to naturally be some divergence among the rules because these agencies have different mandates. Homeland Security, for example, has a very important mandate to protect the security of our country. That isn't the SEC's mandate. The SEC is an investor-protection agency. And so, while I think that there is coordination among these different agencies, and the notice-and-comment rule period provides an opportunity for other agencies to make their views and concerns heard about any of the SEC proposals, the reality is the SEC has identified a different harm relating to cybersecurity than that which\*

most demanding regulatory regime in the hopes they can then satisfy some of the other standards to which they are subject. It's a complicated web of regulatory oversight when it comes to cybersecurity.

## Board expertise

• **WSJ:** Earlier in the conversation, we mentioned some particularly challenging areas, such as the governance question and having directors with the right expertise in place. We're still waiting on the final form of the rules, but what do you think companies should be doing now to prepare?

• **LITTMAN:** I think everyone, if they aren't already looking at these proposed rules and checking against their own systems and making sure that their policies

and procedures are already up to snuff, should be, because there's a good likelihood that some form of this is going to become adopted.

The other point I'll make is about hiring an expert, or retaining a director for your board who has cybersecurity expertise. There is way more demand than there is supply in this space. If that becomes part of the final rule that's adopted, you don't want to be the one scrambling to try to snatch up a director who has the appropriate cybersecurity expertise, because there's going to be a lot of competition.

• **WSJ:** When it comes to cyber events, there are some questions about what constitutes a "material" incident. Some say it doesn't seem to be consistent across industries.

• **LITTMAN:** When I counsel a client through an incident, the first question they ask me is, "Is this material? Do we have to report this?" The legal definition for materiality is, "Would a reasonable investor view it as important in making an investment determination," or something along those lines. But in practice, it can be different.

If you look at it from a quantitative perspective, there have been court decisions over the years that say if the stock price moves more than 5% based on revelation of that information, it's quantitatively material. But you don't have the benefit of understanding how the stock price is going to move when you're trying to make a materiality determination.

You also can look at it from a quantitative perspective in terms of how much of your business is impacted by it. But you should also look at it from a qualitative perspective. And I think that is how the SEC is approaching it.

So you really need to look at the nature of the information that has been compromised, the scope of the compromise and other potential harms that can kind of have ripple effects. Is it going to impact your vendor relationships? Does it have the potential to result in additional litigation or regulatory scrutiny? These are all factors that you should be thinking about in your materiality analysis.